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WITH THE EDITORS

On Saturation Points

EVERY now and then somebody asks us, "Has not the automobile industry reached its limit? With the market saturated, what can there be ahead?" Or they may ask the same question about radios or electric refrigerators or a variety of other products now in active demand. They even ask it about the stock market. How can stocks go up any further when buying power already has been so largely utilized?

"For the past several years," one of our valued readers writes us, "people with money have pretty generally preferred stocks to money, and are therefore pretty well invested up. Investment counsel and the services have their clients well invested. Almost without exception, the investment trusts are very fully invested. In the same period institutions of all kinds have been investing a greater proportion than usual of their funds in equities. The flight of capital from Europe has also brought considerable buying into our market. All of these factors are represented in present prices. Can you point out to me where the buying power is to come from to carry stock prices materially higher?"

Well, buying power is never a fixed quantity of dollars. In a period of rising business activity—and we are in such a major trend—more and more buying power is produced and distributed. There is an upward spiral of national income and purchasing power. Moreover the Government's deficit financing is creating bank money at the rate of three or four billion dollars a year.

What may be the present rate of gain in our national buying power is anyone's guess. Our guess would be seven to ten billions a year, including the Government's bounties. Suppose only a relatively small portion of this increment comes into the stock market. What happens? Stocks will go up substantially *as long as the great majority of investors see no reason to let go of present holdings.* Demand is only part of the stock market equation. Supply is equally important. When supply is light, as it must be in the present economic-financial setting, only a light demand is needed to maintain the upward trend.

In the "saturation" theory, whether applied to buying power for stocks or for industrial products, there is just enough of a germ of truth to make the possible margin of error a very large one. The new customer market for automobiles was saturated some years ago, but the replacement market today provides a huge and wholly satisfactory volume of business. Of all the host of investment factors to be considered, we are inclined to believe the "saturation point" is the most nebulous and the least to be pondered over.

In The Next Issue

Investment Opportunities in Companies Which Can Pay Larger Dividends

Two Industries Dominate the Business Outlook

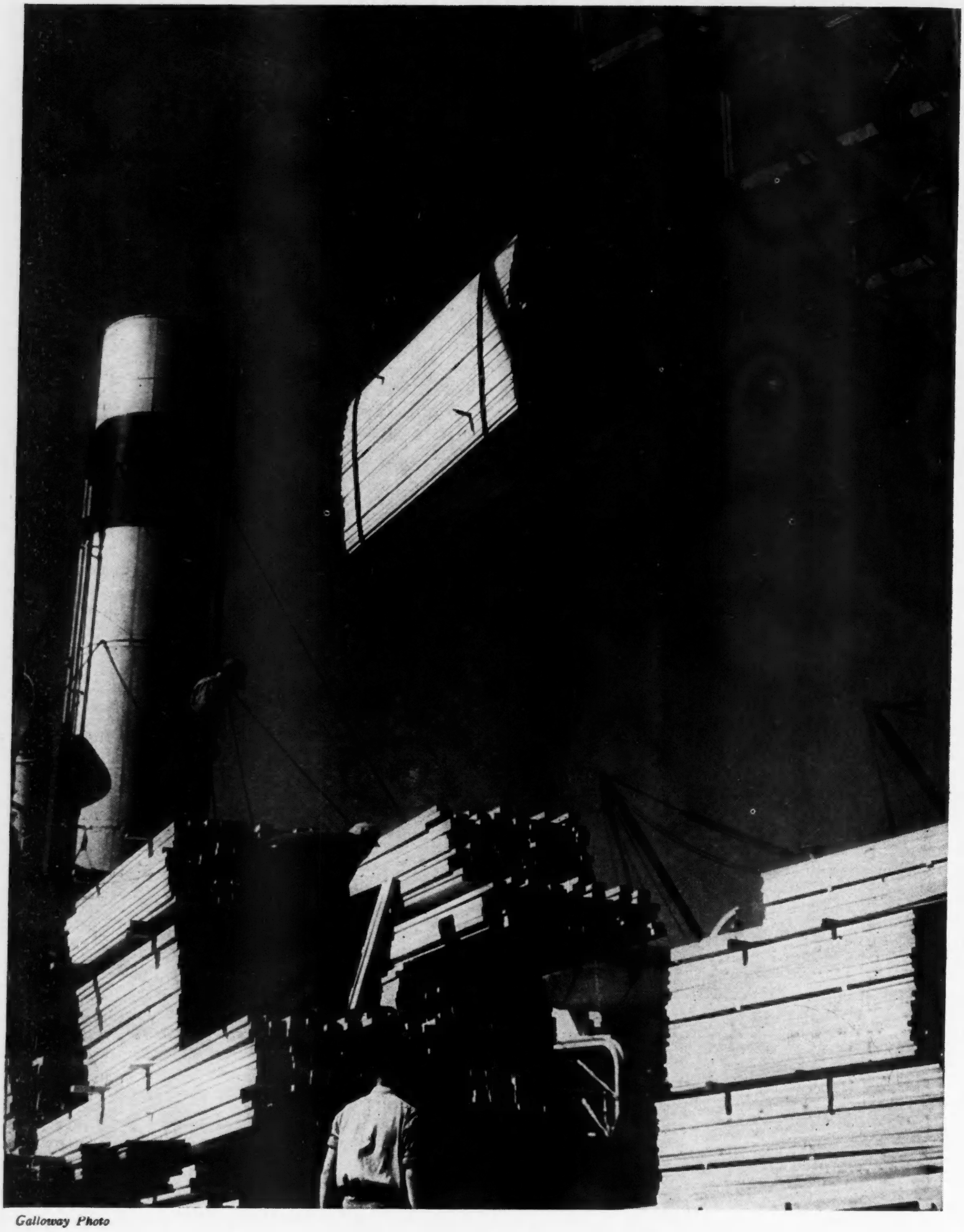
By JOHN D. C. WELDON

Re-appraising the Oil Stocks

By BARNABAS BRYAN, JR.

Expansion Possibilities for Our Industries in South America

By DR. MAX WINKLER



Galloway Photo

Demand for building materials is proving a sustained influence toward higher activity not only in the industries directly involved in construction, but in business generally. Huge shipments of lumber are being loaded on the West Coast and elsewhere to find their way in millions of homes to be built or repaired.

E. Kenneth Burger
Managing Editor

C. G. Wyckoff
Publisher

Theodore M. Knappen,
Laurence Stern
Associate Editors

The Trend of Events

A Ten-Year Building Revival Lies Ahead

THE market studies of the Johns-Manville Corp., one of the largest producers of building materials, indicate that the volume of construction fluctuates in a cycle of about twenty-one years, characterized by several years of over-building as the peak is approached, several years of under-building as bottom is reached. The last peak was in 1926. If the normal pattern is followed, a decade of rising construction lies ahead of us. Already the advance is firmly started and it should surprise no thoughtful person that it is proceeding more gradually than some over-optimistic forecasts called for at the start of the year. The next peak should come in 1946 or 1947.

Especial interest is lent to the above long-range forecast because it comes from an organization which correctly forecast the collapse of the last building boom several years before it became obvious, and which set its managerial course in accord with that diagnosis. If its judgment is equally sound in the present instance—and we believe it is—the last great rampart of depression is slowly crumbling before our eyes and we are heading into an extended period of prosperity.

Lewis H. Brown, president of Johns-Manville, holds that if the coming building revival is both to rest upon sound foundations and attain maximum proportions there must be further reform in the financing of construction and further progress in the technique of construction. The financing of a home should be virtually as convenient as that of an automobile. Mortgage lenders should insist upon a sound relationship between the purchaser's income and the size and value of the mortgaged property. The quality of construction should conform to minimum standard requirements certified by an independent appraising organization comparable to the National Board of Fire Underwriters. Research comparable to that pursued for years by the motor industry should produce ever better building materials at lower costs, more efficient distribution of materials and radically improved methods of construction.

Human memory of past mistakes is unfortunately short. It is no doubt too much to hope that all of Mr. Brown's specifications will be observed—but we are heading in the right direction. Already reform in mortgage credit has made great strides and signs of technological progress in building are increasingly evident. Moreover, we are more concerned now with a revival in building than with what may happen after the next peak is reached. An authoritative forecast of ten years of rising construction is more significant news to America than anything that has emerged from the last week of political oratory at Philadelphia.

The Roosevelt Revolution

THE most vital issue confronting the Democratic Party and the country was not debated at Philadelphia. That issue is not Government spending. Both Parties agree the budget must be balanced, differing only as to when and how. Despite mouth-filling and ear-splitting oratory, the issue is not between "greedy vested interests" and the "common man." The real issue is whether the Government shall be merely the umpire in the economic game or the quarterback. Plainly, Franklin D. Roosevelt intends to be the quarterback, in supreme command. He believes sincerely that our economic problems can be solved only by centralized Government planning, backed by the full Federal police power. It matters not whether this be brought about by Constitutional amendment—which would involve extended public debate—or by "liberalized" interpretation of the Constitution, which could be brought about when death opens the door to one or two appointments to the Supreme Court.

The country would do well to ponder this issue. If it goes along with Mr. Roosevelt the basic philosophy of the American system of government will be revolutionized. Our Revolutionary War was fought to throw off the yoke of onerous governmental powers exercised from afar. It was fought that the citizen might have maximum freedom of individual action and, to this end, definite limits were placed upon the power of government, both central and local.

The Democratic Party would do well to ponder this issue. Today its national leaders advance emotional arguments strikingly similar to those advanced in the cause of national Prohibition. Then it was claimed that only the Federal power could cope with the liquor evil. Then it was charged that the opponents of Prohibition favored drunkenness and sided with the liquor interests. Liberal Democrats, including Woodrow Wilson, pointed out the dangers, to no avail. Men like William Jennings Bryan won that battle, claiming all righteousness on their side. It took the Democratic Party years to reverse the mistake.

Today those who believe it is the height of folly to look to a Federal bureaucracy for wise and effective regulation of prices, wages and working conditions throughout our tremendous land are accused of favoring child labor and the sweatshop. Yet it is obvious that the enforcement of such powers would be enormously more difficult than was the vain effort to enforce Prohibition. It is equally obvious that public resentment would begin to arise in short order as the restrictions began to be felt. The ultimate political reaction would blow the New Deal to bits. Meanwhile incalculable damage would have been done. This country of 128,000,000 people is too big to be run by any quarterback.

Bonus Money Will Circulate for Months

CONTRARY to popular impression, the economic effects of the distribution of the veterans' bonus will extend over a considerable period. True, this stimulant will prove temporary; but to liken it to "a shot in the arm," of immediate and brief influence, is misleading. Some recipients will retain their bonus bonds as investments. Others will delay cashing them to avoid the initial rush—"standing in line" being one of the nuisances of war days that thousands of veterans to this day detest. Still others will use these new-found funds to discharge existing debts. Millions of bonus money spent for homes or home renovation will dribble out over a period of weeks rather than in one quick lump. Again, some veterans will take their time deciding what to do with the money. Yet it must not be forgotten that the secondary stimulant will be just as effective as the initial one; that is, those to whom the veterans pay this money will in turn pay it out to others, extending the spiral for months. Hence we can expect neither the violent trade spurt nor the subsequent severe relapse that some observers have warned against.

Cracking Down on Steel

THE N R A was a New Deal idea enthusiastically favored by President Roosevelt. He expressed deep disappointment when that agency was nullified by unanimous decision of the Supreme Court. Following that decision many industries announced they would voluntarily continue to maintain code standards. Among these was the steel industry. By all the evidence, such voluntary compliance had the tacit approval of the Administration.

Now what were "code standards"? They applied not alone to wages and hours, but to pricing policies as well. Hundreds of codes encouraged and even enforced the direct or indirect fixing of identical prices. To Mr. Roosevelt it seemed like a good idea at the time. Now, however, he has directed the Attorney General to act on charges of the Federal Trade Commission that four large steel companies have been guilty of collusive bidding in submitting identical bids for a P W A contract. In short, they are to be prosecuted for voluntary maintenance of an N R A code provision for the violation of which they would have been damned as late as May, 1935! Is this politics or a complete reversal of Mr. Roosevelt's economic philosophy? There is one intriguing thing about the New Deal. One seldom knows which way it is going.

How to Make a Thin Market Thinner

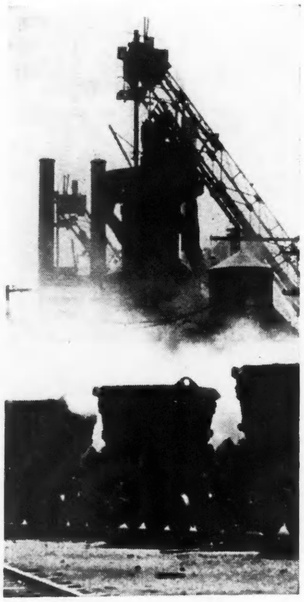
IN considering Federal regulation of the security markets it is important to bear in mind that existing rules have had only such partial test as a bull market provides. They have yet to meet the test of a liquidating market. Hence it is open to question whether the S E C is on sound ground in proposing additional reforms before the initial ones have had more conclusive trial. It now suggests that on the one hand dealings of floor traders be restricted and on the other hand that trading and brokerage be divorced.

With the exception of specialists, who have so wisely policed themselves that they get a virtually clean bill

from the S E C, much can be said for the theory that a broker should either do a commission business or trade for himself but not both. In practice, however, the two proposed restrictions will still further curtail the activity and liquidity of a market already made dangerously "thin" by the existing regulations. Chairman Landis says we must "not regard liquidity as a fetish." Maybe not, but in the absence of the former liquidity we saw a very small volume of selling produce a severe market reaction in May. That is just a mild sample of what would happen in a real bear market rendered equally "thin" by Federal restrictions. Fewer margin traders would lose their shirts, but investors and banks holding collateral loans would be in even hotter water than in the last bear market.

Another Business Strait Jacket

THE Patman-Robinson anti-price discrimination law is essentially a law to put a bottom under price competition—aimed particularly at chain stores, but affecting pretty much all forms of merchandising and all steps in the process of distribution of goods. It is not a price-fixing measure, but it is a price-controlling one. Logically it should operate to raise consumer prices, because if distributors pay more the tendency would be to pass the increase along to the ultimate consumer. Practically, it is argued, it would not have that effect in the long run, because its objective is to maintain competition by equalizing purchase prices to small and large retailers. The motivating fact back of the law is the gradual displacement of the individual tradesman by the powerful chain store groups, which have been able by reason of the great volume of their purchases to obtain either open or disguised price concessions. The law is consistent with previous anti-trust acts, which have recognized that unrestrained competition may operate to destroy competition. At the same time the anti-trust laws are sternly opposed to agreements as to price among distributors entered into for the very purpose of preventing destructive competition.



Nesmith Photo

The new law permits differentials based on the economies of production in filling large orders, but nevertheless authorizes and instructs the Federal Trade Commission to establish limits beyond which there may be no further quantity concessions. And yet the law permits the seller to select his own buyers, provided his prices are "legitimate." Thus a low-cost producer may confine his price-reducing ability's fruits to preferred customers. Just wherein this provision protects the little fellow is hard to understand. Indeed, it already appears probable that it will have the effect of segregating groups of producers or primary distributors who will sell exclusively to the chain stores, thus establishing the latter in a monopoly of certain goods.

The Patman-Robinson law is a composite of several bills with diverse purposes and the result is a statute of seemingly conflicting provisions; certainly it is one which will be difficult to construe and exceedingly complex in administration. It will doubtless give birth to much confusion and distracting litigation, with a probability that the Supreme Court will eventually be called upon to examine its constitutionality. It is the product not of tension between the ultimate consumer on the one hand and suppliers on the other but of conflicting business interests. In other words, business has invited intervention of government. The situation points to the conclusion that it will be increasingly difficult to keep government out of business regulation and likewise increasingly difficult to do business efficiently with such regulation. Regret it as we may, the days of unrestrained *laissez faire* are gone forever. Which is a good reason for opposing all new advances of government into business until their necessity has been demonstrated. It is by no means certain that the Patman-Robinson law may not turn out to be a powerful instrumentality for the defeat of its own trade stabilization purposes, and without benefit to the consumer.

Sound Advice by A. F. of L.

THE recent declaration of the American Federation of Labor against continuation of the policy of expending vast sums on public works as a means of priming the business pump is sound economics, but in sharp contrast with its advocacy of more pay for less work. A. F. of L. economists have certainly had their troubles during the recent years in trying to keep their orthodox views in line with Federation policies. The A. F. of L., so far as we know, is the only labor organization in the world that does not lean toward Marxian economics, but in practice it grabs all it can get at the moment, regardless of the morrow. It has always seemed a pity to us that a labor group theoretically devoted to the maintenance of the capitalistic system could not be united with employers in the perfection of that system's possibilities for greater service to the community as a whole. An opportunity for these bitter foes of the present and past to get together under the same flag may yet arise. The conflict between the Lewis and Green factions may present such an opportunity. If the unionization of American industry is inevitable it would be better that it came under the auspices of the A. F. of L. than under those of the vertical industrial unions, which lean strongly toward communism and may yet be entirely dominated by enemies of the present social order.

Monday, June 29, 1936.

What's Ahead for the Market?

By A. T. Miller

As this is written the stock market has had more than seven weeks of persistent, though unspectacular, recovery from the severe intermediate reaction of April. The scope of this recent movement, and therefore its technical significance in relation to the near-term speculative outlook, depends upon how you measure it.

The daily-published Dow-Jones industrial average of 30 stocks at its recent highest closing level had come within less than two points of the bull market high of April 6. The *New York Times* average of fifty stocks at its recent high went two points above the previous top for the year. The *New York Herald Tribune* average of 100 stocks during the past week came within approximately one point of its old high. In marked contrast with these, The Magazine of Wall Street's much broader average of 295 stocks has recovered less than half of the ground lost in the April reaction.

What has happened is that the recent phase of recovery has been confined to a minority of high-price and medium-price equities favored by highly selective buying. In the vanguard have been such prominent issues as Chrysler, Air Reduction, Allied Chemical, J. I. Case, Coca-Cola, du Pont, Eastman Kodak, International Harvester, Sears, Roebuck and Union Carbide. The great majority of low-price stocks have been dormant for weeks. Moreover, illustrating the irregularity of present trends, a fair number of stocks have skidded to new lows, including such as Commercial Solvents, Colgate-Palmolive, Bohn Aluminum, Gillette, Gold Dust and Remington-Rand. Again, the rail and public utility groups have shown no disposition during the past fortnight to extend the modest rally of preceding weeks.

It may be argued with considerable logic that a selective recovery led by generally high grade industrials is a favorable omen as to the longer range movement of prices, since similar selectivity marked the early phases of advance from both the lows of the summer of 1934 and the lows of March, 1935. Under this reasoning one would expect high grade industrials of investment rank to be forced up to new highs and that such a movement would be followed in the course of time by a renewal of speculative interest in less prominent sections of the list.

Possibly it will work out in this fashion, but throughout the long advance between March, 1935, and late February of this year The Magazine of Wall Street's average of 295 stocks conformed much more closely to the upward trend of the more narrow averages—such as the Dow-Jones thirty leading industrials—than has been the case in recent weeks. Again, in retrospect it can be seen that the static action of this broad average throughout March of this year reflected speculative distribution and dwindling investment support more accurately than did any average made up of a limited number of issues.

Yet whichever average the trader follows, we believe that in short-term speculative operations a highly cautious policy is now called for. Judged by our inclusive average, which reflects the great bulk of market activity, the market after seven weeks of irregular rally is yet to provide a conclusive signal of a fresh phase of major advance immediately ahead. If one judges by the narrower averages, the point of technical interest is that they have recently moved up within the approximate price range at which the advance terminated in early April. In short, they are at a level of resistance constituting a formidable and significant test. At such a level the safety first policy in short-swing trading is to take some profits or protect them while awaiting proof that the market has enough steam to inaugurate a new bull phase. If not, new short-swing commitments conversely must await a test of reaction. As to the latter possibility, our guess is that on the average the lows of the recent intermediate reaction will not be closely approached. It would be unusual for the market to have two reactions of full intermediate proportions within a space of three or four months. The one already experienced effected a substantial speculative housecleaning. Yet it must be constantly borne in mind that technical habits in present regulated and exceptionally "thin" markets are new and puzzling. Hence speculative policy must be conservative, selective and opportunistic, ready to veer with the market's own indications in the present uncertain setting.

In our view of the long-range prospect for the market it need hardly be repeated that there is no change whatever. In terms of national income and per capita business activity the recovery cycle still has a long way to go before any reasonable approximation of normal prosperity will have been attained. Construction and the capital goods industries, still severely depressed though gradually improving, continue to hold the key to full recovery. In the event the outcome of the national election in November points to a tapering off in the Government's deficit financing—which long has been a supporting force in the market through its inflation of bank deposits—we believe

The market's short-swing outlook is clouded both by the political factor and coming summer recession in business activity. At the present price level caution in speculative policy is advised. No change in a bullish long range investment attitude is indicated.

this partial deflationary influence would be more than offset by the resulting inflation of business confidence. Bank deposits now are at an adequate level and what is mainly lacking is normal velocity in their use.

It must be emphasized that in restating a generally optimistic long-range point of view, we are looking beyond next November. As for the several months just ahead we have no firm conviction, but in the face of both political uncertainties and coming summer recession in business activity we believe the market will do well enough if it merely sidles along quietly within the general trading range marked out since late February in our index.

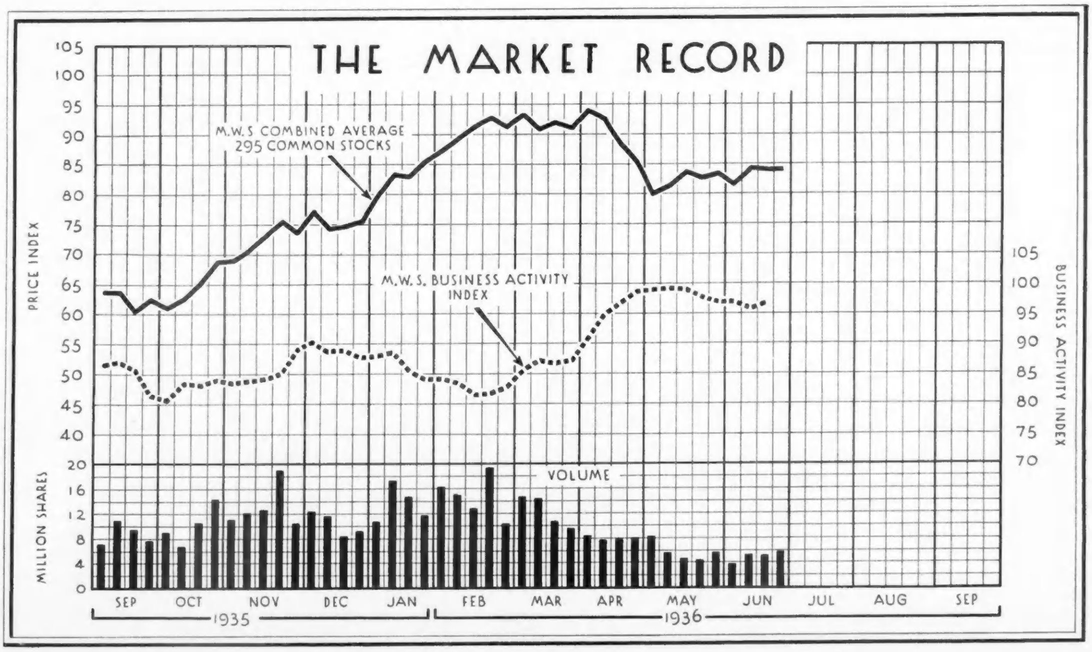
At present our index of business activity has slipped three points under the May peak, despite an unseasonally high level of steel operations. Fully half of the June business in steel, however, has been brought in by the fact that the third quarter will bring higher prices, and hence represents orders borrowed from July and August. The coming slump, as indicated by present evidence, will be less severe than a similar reaction in the summer of 1934, but will nevertheless be of more than seasonal proportions.

As previously pointed out here, the let-down in motor production in the weeks just ahead likewise will probably be of considerably greater than seasonal proportions, due to the fact that model changes will be more extensive this year than last and will require longer change-over periods in the motor plants.

These two key industries alone are sufficient to put a considerable temporary dent in the business indexes. Moreover drought in the west again has become a potentially unfavorable near-term business factor. There is yet time for the damage to be repaired by rains, but meanwhile previous trade hopes of some of the merchandising concerns heavily interested in rural business, of the farm equipment makers and of some of the railroads must be qualified.

As regards this intermediate period, growing fears of coming labor difficulties, centering first in the steel industry, are likewise an element of market uncertainty. The Iron Age reports that the Lewis Committee for Industrial Organization has begun its aggressive unionization drive, backed by ample funds; and that, to offset this, serious consideration is being given by the industry to wage increases.

Finally the Federal Trade Commission's report charging collusive bidding by steel piling makers and the proposed settlement of the Commission's case against the tinplate makers through a consent decree indicate renewed governmental hostility toward the steel industry as well as an official turn toward enforcement of competitive pricing generally. In the long run, this publication is wholly in favor of free competition. Nevertheless these incidents, accompanied by sagging prices for steel stocks, contribute to immediate uncertainty. On the whole, however optimistic for the long pull, we beg leave to keep our fingers crossed for the present.



Happening in Washington

By E. K. T.

The issue joined by the national conventions is plainly one of whether Government is to become the overlord of business and use its vast powers for the general purpose of equalizing the distribution of income and wealth.

To give immediate significance to the issue, you may expect that the present Administration will seize every opportunity to demonstrate its friendliness for "the forgotten man" by utilizing all its administrative and prosecuting powers against those now in economic power and for the "underprivileged."

Look for energetic action by the Federal Trade Commission in applying the Patman-Robinson regulatory price law and all other anti-trust laws and for renewed vigilance by the Department of Justice in the strict enforcement of the anti-trust laws. See the recent tin-plate "cease and desist" order.

Be ready for rigid enforcement of the new Federal contracts law—minimum wages and 40-hour week for all persons employed on the production of goods for the Government, and make your plans accordingly if you wish to avoid unpleasant notoriety and severe penalties.

Washington Sees—

Bitter electoral campaign on fundamental economic issues—first since 1912.

Feverish activity by all governmental agencies having regulatory contacts with business laws.

Patman-Robinson anti-chain-store (and much else) to be applied zestfully—but with questionable results.

Mystery in Department of Justice investigation of big oil distributing concerns.

President humiliated in deletion of personal whim legislation—despite unbroken grip on Congress in major policies.

New chance for American shipping in subsidy law.

New tax law affecting government influence over corporation management.

Trade agreement negotiations chloroformed until after election.

Railway co-ordination liquidated without mourning by President or railway executives.

Labor Relations Board "washed up" except vocally.

Federal Trade Commission staging a come-back.

Consider advisability of riding with the storm and applying for an F T C code of fair practices for your business group. All signs point to increasing power for the Commission. May eventually become the paramount governmental agency in regimentation of business. Such is its ambition.

National Labor Relations Board was pretty well washed up by the implications of the decision of the Supreme Court in the Guffey coal law case and stunned by the recent decision of the U. S. District Court at New Orleans against its own constitutionality but will continue its hearings and orders.

Federal Communications Commission will work overtime on its investigations. All the emergency agencies will be feverishly active in demonstrating the interest of the Government in the welfare of the masses.

U. S. grand jury investigation at Madison, Wis. (closely guarded by court and justice officials), of the practices of the big oil companies in distributive competition with the independents will bear watching. Choice of remote Madison for the investigation has aroused curious comment. Explained, perhaps, by local custom of swearing grand jurors to secrecy.

This case is a sample of division of self-interest in the business world. Government assumes that such a division exists in almost every industry, and infers that it is deceptive to talk as if the business world were against it en masse.

Defeat of Food and Drugs bill is an instance of success of a business group in a legislative fight in a generally anti-business Congress. The regimentation aspects of the bill were to the liking of the President and all his uplifters were for it. Business talked hard against it.

Few Congressmen are so stern in their general principles that they are immune to the appeals of home-town business institutions. The American custom of electing Congressmen by and from definite territorial units constantly opposes local and individual interests to party policies. This explains defeat of the f and d bill—besides it was Senator Copeland's pet measure—and he had taken a walk from Philadelphia.

Most humiliating thing that happened to the President in Congress was his failure in three pieces of whim legislation. He was rebuked in the matter of Passamaquoddy tide power project—a personal marine-summer-home hobby—in the Florida canal project, and in the grandiose $75,000,000 plains shelter-belt enterprise (a forestry whim). All were thrown down, after he had spent about $15,000,000 of emergency funds on them.

Taxes on undistributed corporation profits will cease to worry you by the end of the current business year. Next Congress will overhaul entire internal revenue structure—no matter which party wins. Republicans would wipe out this strange tax; Democrats, unless the beneficiaries

of a smashing victory, will not retain more than a symbol of it, and that only out of deference to the President.

Ominous thing about the profits tax is that it aims at regulation of business through the taxing power. Previous taxes with a social justice objective have aimed at EXPROPRIATION; this one attempts, in addition, to determine the USE of profits. Democratic minority report said of the surplus profits tax that it would "operate to substitute through tax pressure bureaucratic judgment instead of ownership direction and judgment as to what is sound, prudent and a financially wise policy necessary for steady employment and general prosperity."

N R A returns in a limited but potent way in the Government contracts act. It is worse within its scope than N R A itself, for it leaves the determination of minimum wages to the whim of the Secretary of Labor. It compels a 40-hour week for all employes on Government work. Companies engaged in producing goods for government purchases will find it difficult to have one set of hours and wages for work on them and another for other work. Means, practically, that all concerns taking Government contracts will have to comply throughout with these labor provisions.

President, if in power next year, will find a way to bring back the planned economy principle of N R A. He considered N R A the crowning act of the New Deal. He has not changed his mind.

"A little to the left of the center" is the way the President describes his course in an indirect interview. But the location of the center is his.

Steel group voluntarily retained its N R A code-made prices in accordance with it, and now its members face jail for violating the anti-trust laws—but really because Mr. Ickes did not like its labor policies.

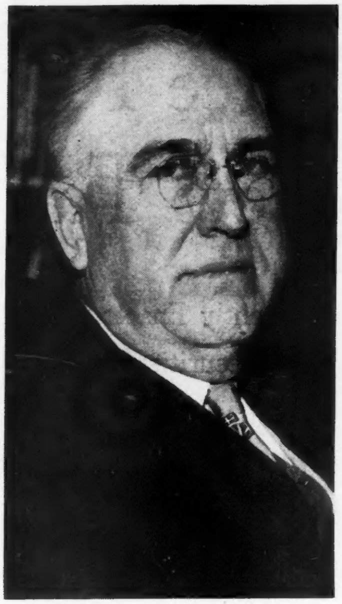
A A A as it was is out but control of agricultural production continues under the guise of soil conservation. Regimentation stays on the job.

Foregoing facts denote the crucial nature of the current electoral campaign.

Reflect and consider France. The people voted for a little to the left. They got it all the way.

Political battle now engaged in United States is seen in Washington as crucial as the recent French contest—and as momentous. Conducted under old party names, though it be, it is fundamentally a struggle between "right" and "left."

The Lobby Flop—Both houses of Congress having passed an anti-lobbying bill and the conference committee having made a favorable report, the bill was listed among the enacted laws—and then the House turned it down with a double slam. This handspring is symptomatic of the steam that is always hissing under the Roosevelt lid.



Acme Photo

Chairman Charles H. March, although Republican, has recently been reappointed to the Federal Trade Commission

Most Congressmen like the personal distinction of being lobbied, and they feel that it is their right to be freely approached by any citizen or any interest. It was not the Big Business lobbies that turned the day, but the lobbyists of the labor unions, of the veterans, of the farmers, etc.

Big Business has lobbied less and less in recent years; it has found it politic to present its case in hearings and by printed matter and let it go at that.

Shiftiness of the Administration is evidenced by Hopkins putting all relief-workers on prevailing local wage rates. In 1935 the Administration declared that the very heart of the substitution of work relief for the dole was maintenance of a subsistence wage. Another evidence of the dominant influence of organized labor.

Liquidation of railway co-ordination office is to be attributed to the tie-up it established between an Administration agency and the railway employment problem. President got out of the fix by persuading the railway managements and labor to agree "out of court" on the problem of excess employes resulting from unification economies. After that he showed little interest in governmentally supervised co-ordination.

Remember that the 74th Congress is practically ended—unless an extra session (most unlikely) should be called between now and its formal expiry which means that all unpassed bills are dead. Bill for the extension of the F T C and all other hung-up controversial measures will have to be reintroduced in next Congress and retravel the weary parliamentary road.

Twenty billion dollars of appropriations and $10,000,000,000 of increased national debt are the footprints on the sands of two years' time this Congress leaves behind it. . . . A record beaten only by the way time expenditures of 1918 and 1919, total $31,000,000,000 and debt increase of $22,500,000,000. . . . Twenty years ago total Federal expenditures were $634,000,000 and the national debt (kept live only as a monetary basis) was $1,132,000,000: latter now $34,000,000,000.

Expenditures, outside of social security charges, will never again be less than $5,000,000,000. With those charges $7,000,000,000 will be normal within a few years. Diffusion of wealth through taxation is irrevocably on its way.

Death of Wagner Housing bill in the last hours of Congress illustrates again the curious tolerance the President, with all his power, has shown at times of antagonistic policies in his administrative household. Hull vs. Moley, Peek vs. Hull, Roper vs. Tugwell are well-known examples. In his enthusiastic interest in the National Housing Act (Federal Housing Administration) the President seemed to be on the side of private business interests as against the broad humanitarian objectives of the Wagner Bill—at government expense—which so strongly appeal to his socializing instincts. He hesitated to give Senator Wagner the full power of his influence, and when he finally did it was too late to check the opposing current the building interests had developed. (*Please turn to page* 388)

The Three Rs of the New Tax

How the Recently Enacted Law Affects Corporations, Securities and the Investor

By M. L. Seidman, C.P.A.

Tax Consultant

THE three "Rs" of the new Revenue Act might well be said to be Reform, Revenue and Revolution. There is considerable question over the reform part of it. There may even be some real doubt whether Uncle Sam will collect as much revenue from the few wealthy individuals as the penalty taxes just enacted are intended to collect, for the tax-exempt security offers them a haven of complete escape from what would otherwise be almost complete confiscation. But about the revolution part of it, there is little question. The changes wrought by this new law, effective retroactively to January 1, 1936, are without doubt the most revolutionary since the birth of the income tax itself.

New Principles Adopted

To understand what is involved, one must have some acquaintance at least with the basic principles of our revenue laws preceding the one just enacted; particularly as those laws taxed corporate business profits as distinguished from business profits of individuals or partnerships. In this country, the corporate form of doing business has been developed to very substantial proportions. In fact, the major part of our business profits now flow through the instrumentality of corporate operations. But, from the very inception of our Federal tax laws, it was recognized that a business corporation is nothing more than an artificial entity and that in taxing it as an entity, sight must not be lost of the fact that its profits belong to the real owners, the stockholders. Therefore, in all fairness, and with a view to avoidance of tax duplication, the real tax on corporate profits was imposed not upon the corporation, but upon the individual stockholders. The corporation for its privileges, as a corporation, paid a normal tax usually at a higher rate than that credited to the stockholder on dividends, the differential being generally recognized as fairly ascribable to the corporation as such.

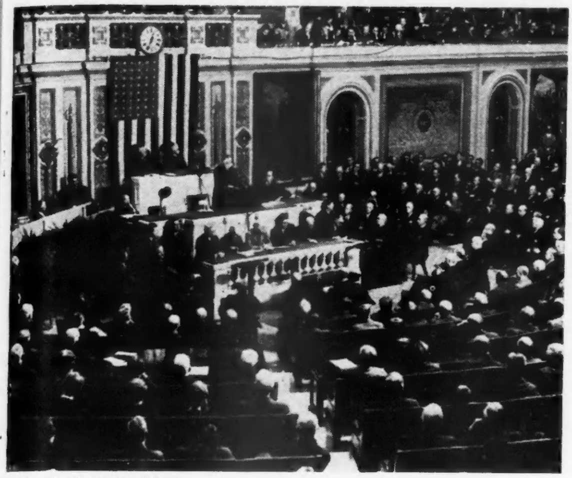
The equity of that arrangement is not at all difficult to see when we consider the case of our smaller corporations who conduct their business very much like partnerships. About 90 per cent of all of our corporations are in fact of that very nature. Now, a partnership business under our Federal income tax laws, is not taxed as an entity. Its earnings are considered to be for the account of its partners. Each partner is accordingly required to pick up in his own annual income tax return his pro rata share of the partnership profits, and to pay a tax on such share whether he actually withdraws the money from the business or not. When the partners have paid taxes on their respective shares, that is the end of taxing the partnership profits. Whether the partnership retains the profit without ever distributing it or whether it does in fact distribute it either immediately or later, is immaterial. The profit once taxed, is forever tax-free either in the hands of the partnership if not withdrawn, or in the hands of the individual partners, if withdrawn.

As to corporations, while, because of the legal entity theory, they have not been treated exactly the same as partnerships for income tax purposes, the principle of the stockholder being the real owner of corporate profits has been imbedded in our tax laws right from the very beginning. So that, except for a very brief period during the war, when excess profits and war profits taxes were a factor, corporations were required to pay a normal tax only. And, to the extent that their earnings were distributed in the form of dividends, the stockholders were relieved from payment of the normal tax, dividends being subject to surtax only.

Under this plan, if all corporate profits were currently distributed, the Government could have no complaint. It collected the full normal and surtax. Nor would there be any disparity in tax between profits earned through a corporation as against those earned through a partnership or individual business. The trouble was that not all corporations could distribute all of their profits currently. Also, in some cases where they could so distribute, the policy of distribution was influenced by the taxable status of some of

Table I—Corporate Normal Taxes

8%	on the first $2,000 of net income
11%	on the next 13,000 of net income
13%	on the next 25,000 of net income
15%	on the balance



Harris & Ewing Photo

The second session of the 74th Congress which passed the new tax in its closing hours

its larger stockholders, particularly if they were already in the higher surtax brackets.

When it is considered that corporate normal taxes have ranged from 1 per cent to the present 15 per cent, while individual surtaxes now reach up as high as 75 per cent, it is not hard to understand why individuals of large means would be reluctant to add to their taxable income dividends of corporations under their control, only to have the Government take away 75 per cent of them, plus perhaps an additional slice going to the state in which they reside.

Because of this, it became necessary quite early in the history of our tax laws, to impose penalties to force corporations to distribute dividends. These penalties applied where it could be shown that profits beyond the reasonable need of the corporate business were being accumulated, with the purpose of avoiding the imposition of the surtax upon its stockholders. A more direct pressure tax was more recently imposed against personal holding companies with the same objective in mind. While the pressure tax on general business corporations was not as effective as the personal holding company tax, more teeth could have been put into the old law making it more difficult for corporations to accumulate. A measure of reform would thus have been accomplished without resorting to a major operation, the consequence of which is right now difficult to foresee. The course now adopted will not only revolutionize our entire system of corporate taxation, but is certain in its wake, to have serious repercussions upon our corporate financial structures, upon refinancing policies, upon corporate dividend policies, etc.

Sunday's Sermon and Monday's Practice

President Roosevelt's message last March, calling for equality in the taxing of business profits was fine. That, however, was the Sunday sermon on the subject. Monday's actuality is something else again, for the effect of the new law will be the exact opposite. Double taxation of corporate profits will be rampant, for the plan now taxes the corporation as if it were an entity by itself without regard to the real owners of its profits. Dividend distributions heretofore subject to surtaxes only, will now be subject to the normal tax as well, while earnings in the hands of the corporation not heretofore subject to surtax, will now pay heavy surtaxes on profits not distributed. And, ironically enough, if the corporation after paying these heavy surtaxes, later distributes as dividends, what is left of the earnings, these will be again subject to both normal and surtaxes in the hands of the individual stockholders. That's rubbing it in with a vengeance.

In addition to the normal taxes shown in Table I, the corporation must pay an undistributed profits tax ranging from 7 to 27 per cent and depending upon the percentage of profits retained. For instance, let us suppose a corporation with a net income of $100,000, and that it paid out during the year $25,000 in dividends. Its undistributed profits tax would be determined as in Table II, which shows that a surtax of $10,921.80 is levied on an adjusted net income of $61,160.

Small Companies Favored

An important exception to this general rule of computation is made to alleviate the situation of a corporation with small income. Where the adjusted net income is less than $50,000, then the first $5,000 is in the 7 per cent bracket regardless of the percentage that the $5,000 may be of total income. Thus, if a corporation has net income of only $5,000, and pays out none of it in dividends, it will pay an undistributed profits tax of only 7 per cent. If this exception had not been made, the rate would go to 27 per cent, since the corporation retained 100 per cent of its income.

The excess profits tax of the previous law remains the same at 6 to 12 per cent. The tax on unreasonable accumulation of surplus, where applicable, is an additional 15 to 25 per cent. In the alternative, the personal or family holding company tax where applicable, is an additional 8 to 48 per cent on undistributed profits.

Table II—How the New Corporate Surtax Works

Net income	$100,000
Less normal tax	13,840
Adjusted net income	86,160
Dividends paid	25,000
Undistributed net income	$61,160
First 10% of adjusted net income, $8,616 rate is 7%	$ 603.12
Next 10%, $8,616 rate is 12%	1,033.92
Next 20%, $17,232 rate is 17%	2,929.44
Next 20%, $17,232 rate is 22%	3,791.04
Remainder, $9,464 rate is 27%	2,555 28
Total Surtax on $61,160 is therefore	$10,912.80

Corporations that are under written contract, entered into prior to May 1, 1936, restricting the payment of dividends or requiring the application of profits to the discharge of debt, are to that extent relieved of the tax on undistributed profits. Familiar examples are the inhibition against dividends unless certain current asset ratios are maintained. Likewise, the requirements to apply a given amount of profits to the redemption of bonds, etc. Banks and insurance companies are made exempt from this tax, but on the other hand, they pay a flat normal tax of 15 per cent. The same treatment is extended to corporations in bankruptcy, or insolvent corporations under a Federal or state receivership.

Under the 1935 law, only 10 per cent of the dividends received by one corporation from another was subject to tax. Now it is 15 per cent. As an offset, the law has been

considerably liberalized to encourage liquidation of subsidiary companies by making such liquidations tax-free. Also, heretofore, individual stockholders had to report in full any profit on liquidations. They could not, as in the case of a regular sale of stock, scale down the reportable profit to as low as 30 per cent according to the length of time, the stock was held. Now they will be able to do so. Investment trusts, where the shareholders can turn in their stock for a pro rata interest in the underlying securities, and where the company otherwise qualifies under the definition of the law as a mutual investment company, are singled out for some special favorable treatment. If such a company passes on to its stockholders its entire net income, including capital gains from the sale of securities, it is relieved entirely from the regular corporation normal and undistributed profits tax. Heretofore, such trusts usually paid out in dividends an amount approximately equal to net income derived from dividends and interest. The new law will probably have the effect of these investment trusts changing their policy so as to pay out substantially all gains, including capital gains.

Some Expected Effects of the New Taxation

1. **Stimulate dividend payments.**
2. **Restrain further upbuilding of corporate surpluses.**
3. **More new capital financing.**
4. **More demand for tax free securities.**
5. **Many special dividends in good times—fewer than heretofore in poor times.**
6. **Early capital readjustments to take care of preferreds with back dividend accumulation.**

Common trusts maintained by banks for the collective investment of various funds under which the bank is acting as fiduciary are exempted from tax entirely in that they are given the equivalent status of partnerships rather than corporations or associations.

Foreigners Encouraged to Trade

Foreign corporations and non-resident alien individuals not doing business or not maintaining any office here will no longer be taxable on security profits realized in this country. Furthermore, on the income that is taxable, a flat rate is imposed. In the case of individuals, the rate is 10 per cent, and it can by treaty, be reduced to 5 per cent to residents of Canada or Mexico. In the case of corporations, the flat rate is 15 per cent, except that as to dividend income, the rate is 10 per cent, and this rate as well can be reduced by treaty to 5 per cent in the case of Canadian and Mexican companies. For foreign corporations that have an office here or are engaged in busisess here, the tax rate is 22 per cent and they are exempt from the undistributed profits tax. The mere buying or selling of securities here through a broker or custodian located in this country is specifically declared not to constitute doing business here.

To avoid possible hardship to a corporation in paying out all of its earnings, it is provided that the dividend need not be paid in cash. It can be paid in kind. In that event, the amount of the dividend is regarded as either the value of the property at the time of payment or its cost to the corporation, whichever is the lower. The stockholder, however, is required to take the dividend in as income on the basis of the fair market value of the property, regardless of its cost to the corporation. The dividend can also be paid in scrip or other corporate obligation, or in its own stock or rights, providing such stock or rights are, under the law, taxable to the stockholders as dividends. If more dividends are paid out than the amount of the year's income, the excess can be carried forward and used as a deduction in the following two years.

A Tax but No Cash

All of these provisions have been inserted so as to make it easier for corporations to distribute their earnings. But, if stockholders are to receive paper which is to be taxed to them as dividends, Congress has not said how and where the real money is coming from which the stockholders can use to pay the tax. Evidently, they will either have to sell in the open market, if they can, whatever it is that they received as a dividend, or sell some of their original stockholdings, or beg or borrow the wherewithal with which to pay the tax.

With respect to holding companies, one can readily imagine what will happen to the operating company's income, starting from the bottom up, as it trickles through to the top holding company in a complicated corporate structure. These companies can literally be taxed to death under this law. They are caught in an inescapable trap, with demise or execution as their only way out. For, if the operating companies do not distribute, the maximum surtaxes are imposed upon them in the first instances. If they do distribute, then at each turn, as the distribution progresses from company to company, Uncle Sam will clip off 2¼ per cent of the dividend (15 per cent of 15 per cent). And what is left of the original earnings after they reach the top company will be subject to the full undistributed profits tax unless it in turn distributes to its own stockholders.

Stock dividends, aside from the undistributed profits tax factor, may now seriously affect the individual's tax status in another way. Heretofore, it was provided that stock dividends shall not be subject to tax. Now, it is in effect provided that a distribution made by a corporation to its stockholders in its own stock or rights is a taxable dividend unless such dividend cannot be taxed under the Sixteenth Amendment. A dividend paid by a corporation on its own stock by similar stock, without changing the proportionate relationship of stockholdings is not so taxable. On the other hand, in a recent United States Supreme Court decision, it was held that where preferred stockholders receive a dividend in common stock, such dividend is taxable. In between, there will be numerous border-line cases which will affect the tax status of the stockholder.

A $31,500 Tax on a $2,000 Profit

The undistributed profits tax does not apply to surpluses accumulated in years prior to 1936. But, in the case of holding companies, if such surpluses are distributed intercompany up the line, they will necessarily be taxed just as if they were in fact current earnings. The term "dividend" has been so defined that where there is a deficit brought over from prior years, dividends may, nevertheless, be currently paid to the extent of the year's earnings. Such dividends, under the law, constitute taxable income to the shareholders, and a dividend credit to the corporation. This is true even if there is an accumulated deficit at the end of the year. Also, a corporation may not have an actual profit, yet be required to distribute substantial sums to meet

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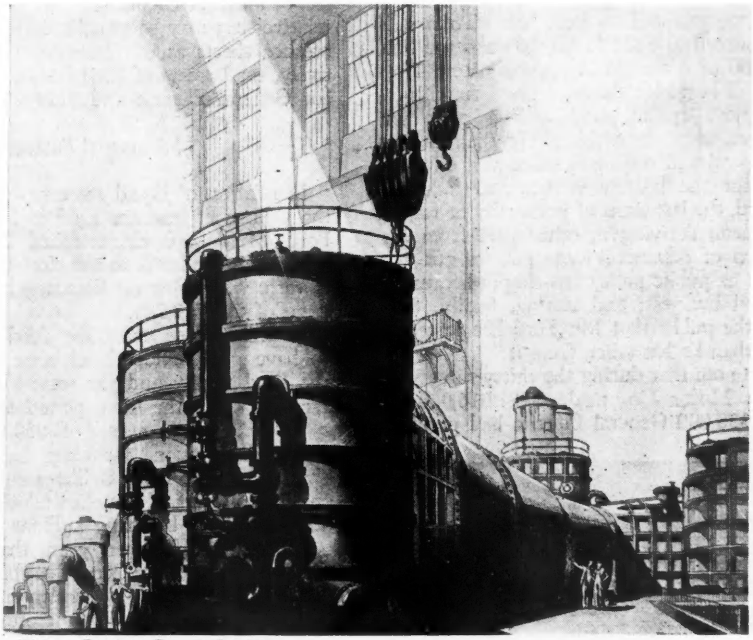
General Electric
The Stock Everybody Likes

By Laurence Stern



Photos, Courtesy General Electric

IF you were asked to name the dozen greatest corporations in the country General Electric undoubtedly would be among the first five or six to pop into your mind, along with such giants as American Telephone, General Motors, United States Steel and the Ford Motor Co.

The repute that General Electric enjoys, however, is due only in part—and relatively minor part—to the size of its business, for while this is large it is not phenomenal in American industry. There is a fascination and romance in the dynamic and still young electrical industry that it leads, in the marvels that have been and are being created in its laboratories, in the fortunes that have been made in the meteoric appreciation of its stock over the past two generations. All of this contributes to General Electric's place in the public consciousness.

Yet that still is not the answer. The fact is that at various forks in its road General Electric has chosen the right fork when it would have been easily possible for a management less wise to choose the wrong one and in so doing incur public ill will rather than favor.

For example, General Electric long owned the Electric Bond & Share Co., one of the greatest of the pyramided utility holding companies. What a headache it would have if that association existed today! It was in 1925 that it divested itself of Bond & Share by distributing the stock to its shareholders. That was years before the political storm broke over the bowed heads of the utility holding companies.

Chairman Owen D. Young, business man extraordinary, lawyer, diplomat, has a favorite saying, heritage of his farm boyhood in upstate New York—"I have a feeling in the seat of my pants." Call it hunch, intuition, judgment or what you will. In 1925 he had a feeling in the seat of his pants that it would be a good idea for General Electric to get rid of Electric Bond & Share. It *was* a good idea.

Again, consider the fact that General Electric's position in the electrical equipment industry is somewhat analogous to that of United States Steel in the steel industry, yet in the company's relations with the public and with government it has managed to avoid any taint of monopoly. "Westinghouse keeps us out of jail," is the humorous explanation often advanced by General Electric men. It is true that Westinghouse does, roughly, about half as much business as General Electric and that there are various other alert competitors, but so does United States Steel have plenty of competition and yet United States Steel has had its full share of governmental hot water from time to time.

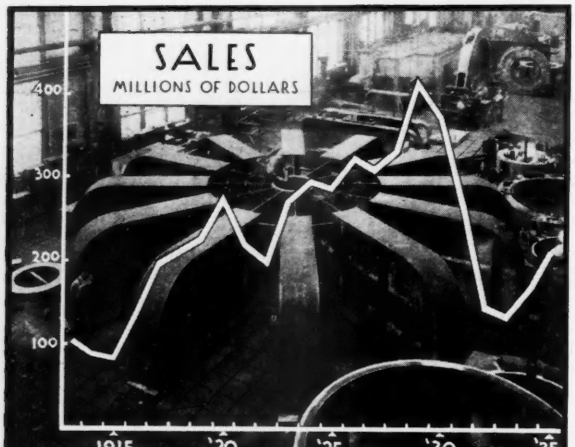
Consider, too, the fact that General Electric has been wise

enough to hold that it owes an obligation to its workers as well as to its stockholders. Its policy as to wages, working conditions, pensions, employee savings, employee stock ownership and maximum possible security of employment has been progressive and humane.

These are matters of management and not fortuitous circumstance. Particularly under the management in comparatively recent years of Mr. Young and of President Gerard Swope—broad-minded, shrewd, alert, progressive management—this company has conducted itself much as if it were a public institution. That, more than any other factor, accounts for the good will attaching to the name General Electric.

There is money in public good will—big money. Recently W. J. Cameron of the Ford Motor Co. revealed to the American people over the radio the volume of this company's business and the profits resulting from it during the thirty-three years of its existence. Total sales over this period amounted to $12,951,338,000 and the total profit to $782,016,000 or a margin of approximately 6 per cent of sales. Few will begrudge the Ford profit for this enterprise likewise enjoys public good will—a good will created far less consciously and deliberately than that of General Electric; a good will resting in some part on widespread admiration for the homely virtues and industrial genius of Henry Ford, the last giant of personally or family-dominated big business; deriving in other part from Mr. Ford's early adoption of advanced wage policies not as a matter of conscience or public policy but simply because he thought it was good business; and resting, finally, on a tacit conviction by the public that Mr. Ford has passed on to it greater values than he has taken from it.

It is interesting to note that during the thirty-three years in which the Ford Motor Co. made $782,016,000 out of sales of $12,951,338,000 General Electric had profits of



$781,778,000 on a sales volume of $5,874,000,000, the margin on sales over this period having averaged about 13.3 per cent. Hence, relative to volume, General Electric has been more than twice as profitable as the Ford Motor Co.

The comparison would not be importantly changed by adding General Electric's first ten years to the record, for while it is older than the Ford company—having been organized in 1892—its total sales in that first decade were considerably less than it now has in a single year and the profits were proportionately small.

Last year General Electric's net income amounted to approximately 13 per cent of its sales or virtually the average of the thirty-three year period above cited. The profit in 1935 for the Westinghouse Electric & Manufacturing Co. was equal to approximately 9.8 per cent of its sales. It should be noted, however, if such comparisons are not to be misleading, that "other income"—income from investments, interest, etc.—is relatively far more important to General Electric than to either Ford or Westinghouse. Thus General Electric's income from sales last year was $18,391,780 and other income was $9,725,176. Excluding other income, the profit margin of sales of $208,733,433 was 8.8 per cent. Excluding "other income" of $2,647,754 received by Westinghouse, this company's margin on sales of $122,588,555 was 8.8 per cent or identical with that of General Electric and a notably efficient performance.

It may also be of passing interest to note that in point of return upon invested capital, both General Electric and Westinghouse have consistently topped Ford. While assets of all three companies have grown with the years, their relative sizes may be visualized from the fact that the three balance sheets as of December 31, 1935, showed, respectively, total assets of $681,549,000 for Ford, $398,126,000 for General Electric and $194,480,000 for Westinghouse.

Phenomenal Financial Strength

In relation of liquid resources to fixed properties and to the volume of business handled both General Electric and Ford Motor are characterized by phenomenal financial strength. The latter at the close of 1935 had $377,000,000 in cash, while General Electric's balance sheet showed cash items of $93,710,284.

In thirty-three years the Ford Motor Co. is estimated to have paid dividends of some $200,000,000, chiefly to the Ford family and for some years back entirely to the family. Over the same period General Electric has paid cash dividends in excess of $500,000,000, besides various special distributions, including the distribution of its ownership of Electric Bond & Share and of its stock holdings in the Radio Corp. of America which have swelled the return to stockholders by many millions of dollars.

During the fourteen years that Owen D. Young and Gerard Swope have been the chief executives of General Electric the company has undergone some sweeping changes. Out of total sales of slightly more than $6,000,000,000 in a career of more than forty years, this period 1922-1929—including our greatest boom and our greatest depression—accounted for $3,749,875,000 or considerably more than half the total. Within this period General Electric earned $528,401,000, paid cash dividends of $351,000,000, paid $1,538,000,000 in wages and salaries and expended approximately $166,000,000 on its plants and properties. Despite that large property expenditure, as well as continuous similar expenditures for many preceding years, the property account on the company's balance sheet is carried at only $35,835,000, the depreciation reserve being $147,036,000.

In financial conservatism Messrs. Young and Swope merely carried out the policy to which the company had adhered from its inception in 1892 when it was formed in a merger of the Edison General Electric Co. and the Thomson-Houston Co., two companies which, along with Westinghouse, were among the earliest pioneers in electricity. Charles A. Coffin, first executive head of General Electric—a post he held for thirty years until he turned over the reins to Young and Swope in 1922—laid down the rule as follows: "Never take a profit until you have it, and always take a loss when there is any possibility of a future loss."

Between 1922-1929, of course, the Young-Swope management had the benefit of an extraordinary expansion of capital facilities by the American public utility industry—an expansion which in volume and in the brief space of years

within which it was concentrated may never again be equalled, in fact probably will not be.

The bottom fell out of this business in the depression and its recovery to date has been nothing to boast about, for while sale of electric power is at a new all time high the output does not yet actually tax generating and distributing capacity on a national average and, for another thing, the utilities in the present political atmosphere have scant reason to risk any larger capital commitments than are immediately necessary.

Now it would seem that concerning this Mr. Young must also have "had a feeling in the seat of his pants" some years ago. At any rate the Young-Swope team not only divested General Electric of its direct ownership stake in the utility field through Electric Bond & Share but set about long before the depression to broaden the company's market. This effort followed three general avenues: the development of a broader list of products of industrial and commercial application than the company had ever had before; the development of a huge field in domestic equipment and appliances, the most profitable of which have been heating equipment and electric refrigerators; and, third, the development of the foreign market.

It is because of this broadened scope of its activities that General Electric last year was able to sell $208,733,433 of its products in a market in which capital expenditures by the utilities were still acutely depressed. It is because of this also that bookings for the first half of this year will be around $120,000,000, suggesting a possible 1936 volume of somewhere between $220,000,000 and $240,000,000. This would be far under the 1929 high of $415,338,000 but it would be approximately 80 per cent of the volume that the company averaged over the five years 1923-1927 when it was heavily dependent on utility buying.

This is a notable achievement in dollar sales when it be remembered that the price level today is well under that of the '20's, that utility buying remains at a low level, that industrial activity on a per capita basis is still substantially under the average of the 1923-1929 period, and that public purchasing power is still subnormal, though rising.

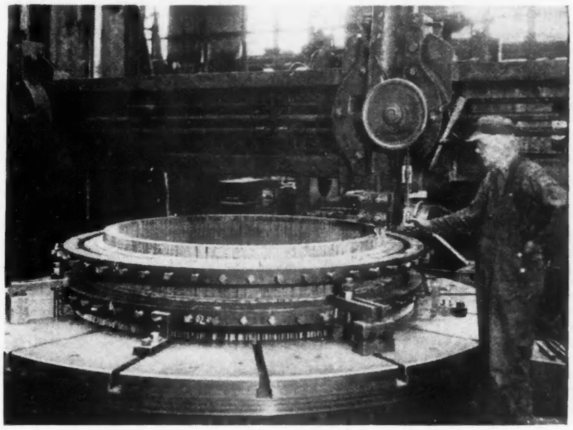
Future Bright

By the same token, the current sales and profit performance augurs well for General Electric's future, for it is a safe assumption that there will ultimately be a considerable revival in utility expenditures, that industrial recovery ultimately will be not only complete but will take us to new highs in the American living standard and that public purchasing power will rise higher.

In short, in none of its major fields need General Electric fear the bogey—largely mythical—of an early "saturation" point. Bearing on this point, a new upward cycle in construction and especially in residential construction is unquestionably under way. It is gradual, rather than spectacular at present but, subject to temporary interruptions, it will continue for a period of years. It will *have* to meet the potential demand created by years of sub-normal building, growth of population and destruction or obsolescence of old houses, not to mention the market-building factor introduced by today's improved materials and methods of construction. This potential demand is increasingly becoming effective demand as the recovery in public purchasing power continues, implemented by attractive terms for mortgage credit and by rising land and rental values.

In its promotional efforts General Electric is making a big "play" for the construction market. As now broadened in variety of products, it will have a substantially larger stake in the construction of coming years than it had in the last period of active building.

Above we have dealt with what can be seen with the naked eye, with what you can put your finger on. In General Electric's balance sheet you will find no valuation for research. The laboratories, as physical property, are a minor part of the property account. Patents and franchises are stated at the nominal figure of $1. But the research men constitute an asset as valuable in the long run as any of the balance sheet items, not excepting $93,710,000 in cash.



In the forty-two year career of General Electric there has been a remarkable line of these pioneers of electrical science —such world famous men as Charles P. Steinmetz, Dr. Irving Langmuir, Dr. William D. Coolidge, Ernst F. W. Alexanderson, Dr. Willis R. Whitney and, still earlier, Edwin Wilbur Rice, Jr., and Dr. Elihu Thomson.

Even the briefest summary of the achievements of General Electric research would fill a heavy volume. In the primary field of power generation each year has seen it make new strides. By 1900 it was building 5,000 horsepower generators, by 1903 10,000 horsepower generators and in the same year came the Curtis steam turbine, first installed by Samuel Insull's Commonwealth Edison Co. in Chicago. Samuel Insull, thought of by many as merely a utility promoter gone wrong in 1929, was an early associate of Thomas A. Edison in the development of the Edison General Electric Co., one of the two forerunners of the present General Electric Co.

By 1907 General Electric was building steam turbine generators of 20,000 horsepower, by 1911 27,000 horsepower, by 1917 60,000 horsepower and by 1930 80,000 horsepower. With equal speed progress proceeded in arc lighting, electric welding, machinery for marine propulsion, electric street railway transportation, electrification of elevated railroads in our great cities and electrification of steam railroads, high power electric induction motors so widely used now in industry and running up to more than 30,000 horsepower, in the development of the Alexanderson high frequency generators which opened a new era in transoceanic radio communication, in the building and application of the electric furnace utilizing high temperatures, in the development of X-ray apparatus, in illuminating equipment of all kinds and in scores of other products and processes too numerous for mention here.

The policy of continuously searching for something better applies not alone to the products but to the company production facilities as well. In its entire career the company has spent approximately $370,000,000 on plant and dismantled or otherwise sold facilities costing $160,000,000, leaving net cost of present plant about $182,000,000 and net book value of property account only $35,835,000 after

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How Political Platforms Will Influence the Business Outlook

The Candidates and the Politics of Their Parties Are Appraised for Their Effects On Trade and Industry

By JOHN C. CRESSWILL

THE course of business between now and next November will be exposed to the storms of a national political campaign —a campaign whose issues are intimately involved with governmental policies and principles that profoundly affect industry and trade.

Platforms, as written, are more or less than declarations, in the sense of representing truly party opinion, intention or promise concerning issues.

Neither a man nor a party can express itself in words only. If such definition were possible, all scoundrels would be paragons of virtue, and politics would be as sanitary as carbolic acid.

Harris & Ewing Photo

The impact of the implicit platforms on business life during the campaign will not necessarily be perilous to business. The liberalism of the new deal is not revolutionary, even if it be erratic and rebellious. The two Roosevelt Congresses may have started something revolutionary for the future but they have not undermined American political institutions nor economics.

A good showing can be made for the Democratic boast that the Administration has been the substantial friend of conservative business, whatever may have been its favorite vocabulary of denunciation and its heterodoxies of finance and trade, of the "money changers." And it is useless to deny that, whether the march of time or the New Deal be given the credit, the Administration has reached the middle of its last year in an environment of marked business recovery, touched with the rose of dawning prosperity, for which it claims the planning and the realization.

"We have made you prosperous," says the Administration to the business world: "Do your duty."

Revolution may lurk around the corner, but it is no part of the contest this year between the two great parties.

As to the essential platforms of the alien Marxist parties and the characteristically American agrarian parties—the socialists, communists, La Follette Progressives, the Townsendites, the Lemke-Coughlin Union, and the Farmer-Labor parties, they are of no importance in themselves but their doctrines may confuse the event of the battle between the major parties. They will draw more heavily from the Democratic than from the Republican ranks. These political guerillas and irregulars may drive the New Dealers into inflationary commitments and deeper into agrarian collectivism; the Union Party was scarcely born before it had caused a rewriting of the Democratic planks on agriculture and money in red ink. The New Deal triumph at Philadelphia was stayed while the leaders sought to put up earthworks around the states and groups that have been attracted to Roosevelt by farm aid, rubber money, debt deflation, price inflation. With this concession to unreason in evidence, any feeling that Roosevelt's re-election is probable would be accompanied by repressive fear in business and investment sectors.

Putting aside political heredity, moulding environment, and current incidents, and getting down to the glittering brass tacks of the verbalized platforms, what do we find to becalm, disturb or stimulate business during the next five months of political fray?

Preambles are the battle flags and war-cries of the parties. The cynical call them hooey and blah but the ingenuous value them above specific platform declarations, as being expressive of principles which are more potent than particular manifestations of party attitude. Both pre-

ambles are devoutly American—the Republicans looking more to the past for their yardsticks of Americanism, and the Democrats being more inclined to adore the forming future and idolize the fluid present. There is nothing in either preamble to give panicky apprehension to business—certainly not a bit more than in the progressive platform of 1912 when Theodore Roosevelt summoned his followers back to Republican first principles and forward to "Armageddon, to battle for the right," and shook old party lines to smithereens.

Republicans Seize the Initiative

The preamble of the Republicans, in its arraignment of the follies and failures of the New Deal and its divergencies from the American tradition of liberalism, expresses the surging wrath of the party and its new recruits better than any and all of the platform planks. It records the remarkable change which has transformed the weak and sheepish party seen in Congress, conducting a disorderly rear guard action for three years, into a militant group contending valiantly for an inspiring cause. It puts the Republicans in the light, to themselves, of soldiers of the Lord in battle with the forces of evil; it sets them off in the heroic position of contenders against oppression, and frees them from the imputation of being mere defenders of a moth-eaten past ensconced in the shell of liberty. One can be deadly in stubborn defense of vested self-interest, but it takes a moral cause to put dash into a charge.

Pro-Landon business men will feel that they are enlisted on the side of the people—and you may feel certain the Republican campaign will therefore be aggressive, hopeful; and, as the months go by, confident. Every bit of gain in Republican confidence will favorably affect business. This will be no procession to the cemetery, as the Hoover campaign of 1932 inevitably was, for either the party or business. The nearer we get to election day the greater Republican confidence will be. Confidence is already reflected in the unseasonal buoyancy of business and the security markets. That in turn will inspire business enterprise.

Wide World Photo

Realizing that concurrent prosperity always fights on the side of the party in power (just as depression opposes it) there is some reluctance to go ahead with business projects that can be deferred until after the election. To help recovery now is analogous to subscribing to the New Deal campaign fund. But the bird-in-hand proverb is the answer. Another damper on enterprise during the campaign is the possibility that a Republican victory would lead to an abrupt contraction of government spending, with a consequent letdown of business activity pending the expansion of industry sufficiently to fill the gap. The answer to this apprehension is that of the persistent claim of the business world that it will "come back" if relieved of fear and spend far more and more economically effectively than the government ever can, short of becoming identical with the national economy. If that business promise is redeemable, the relatively small sums that could soon be withheld in curtailment of relief and restriction of public works, and by other economies, would be inconsequential by comparison.

Plank by Plank

Now, let us look at the principal specific planks:

1. *Supreme Court.* The Court is the citadel of conservatism, the fortress of the *status quo*. The Republicans have declared against "all attempts to impair the authority of the Supreme Court of the United States, the final protector of the rights of our citizens against the arbitrary encroachments of the legislative and executive departments of the Government." And the supremacy of the Court is coupled with a declaration of adherence to local self-government, thus changing the historic Republican emphasis on centralization to decentralization. The Republicans are even willing to amend the Constitution, if necessary, to give to the states the no man's land of power indicated by the Supreme Court in its minimum wage decision.

So far as words go, there is nothing disturbing in the welcomely temperate Democratic plank which expresses a hope to carry through New Deal policies within the Constitution as it is, and proposes amendment only (but curiously, for the historic states rights party) to implement Federal power to deal with national problems.

It is to be noted here, as elsewhere in the Democratic platform, that its wording is so general, its temper so controlled, and its scope so wide that President Roosevelt has as much latitude of action by implied permission as he took without leave under the platform of 1932. Which means—and this will be pondered hard by those Republicans who were for Roosevelt in the beginning and by those who have found him suspect in the end—that conservative business will be exposed to jitters during the campaign. Yet there is scarcely a conservative in the country who could find fault, with the manner of presentation of a thought which might differ but little from his own views; although it leaves the door open to Fascistic entrance.

2. *Unemployment.* The Republicans find the only permanent solution in employment by agriculture and industry and to that end propose the abandonment of all New Deal policies that raise production costs, increase the cost of living and thereby restrict buying, reduce volume and prevent re-employment. Government intervention in business and the assumption of business functions are condemned. As for relief, the Republicans would decentralize it, but make no commitments as to reducing it.

The Democrats are all New Deal on unemployment and are more concerned with providing governmental relief and synthetic jobs than with the provision of conditions which

(*Please turn to page* 385)

The World Invests in America

Foreigners' Stake in This Country Exceeds Six Billion Dollars—How Much Is Subject to Withdrawal and With What Effect?

By John D. C. Weldon

THE United States now holds a monetary gold reserve of approximately $10,543,000,000. This is a new high and by a long margin the biggest gold hoard in the world. It is almost double the amount of currency in circulation. As the base of our monetary system it is capable of supporting any volume of bank credit that our industry and agriculture conceivably could make use of, even in the wildest boom. It would seem to be an impregnable reserve.

Yet it would be more realistic to point out that this is $10,543,000,000 of concentrated financial dynamite. On the one hand, it is a standing invitation to a dangerous credit inflation and, in the eyes of various of our Congressmen, a plausible argument for printing and spending more money because "look how much gold we've got." On the other hand, unless we had recourse to a rigid gold embargo, a goodly part of it could be withdrawn at any time by foreigners who hold claims against the United States. The liquidation of those claims for transfer across the seas in the form of gold could, depending upon a variety of circumstances, be a minor temblor or a severe shock.

These foreign claims upon us are estimated by the United States Department of Commerce to have totalled approximately $6,235,000,000 at the close of 1935, combining long-term and short-term foreign investment of every kind. The amount is larger now, since more than $400,000,000 of gold has come into this country since the first of the year, chiefly from France and the Netherlands. The foreign claims in dollar value are equal to more than 60 per cent of the monetary gold reserve cited above.

In emphasizing the huge total of foreign claims upon the United States there is no thought of painting a picture of imminent danger. Many foreigners have held investments in our stocks and bonds for years. Much capital also is invested directly here in foreign-owned branch factories and other business holdings. Only a part is "nervous money," ready to flee back home—given a change of circumstances—as promptly as it fled here. Certainly there is no prospect whatever that $6,000,000,000 of "our gold" will suddenly take flight.

But we do not know precisely what portion of these claims represents transient funds harbored here. It may be $500,000,000. It may be $1,000,000,000. It may be more. We do know that the largest single type of foreign investment here is in common stocks. This amounted at the close of 1935 to $2,015,000,000. Both because of its size and the volatile character of the stock market, this is the claim of greatest potential danger.

The international movement of capital may under some circumstances be a beneficial thing, under other circumstances a highly harmful thing. Either way, it is of great importance—yet this is a subject on which official information up to now has always been lacking or decidedly incomplete. The Government forecasts the weather for us and keeps track of a thousand and one other things of significance to us and our economic system, but only recently has it begun to dig out the facts on this question of foreign investments in the United States.

The estimate of $6,235,000,000 of such investments cited above is the result of a survey initiated more than a year ago by Amos E. Taylor, assistant chief of the Finance Division of the Department of Commerce. The data was assembled with the co-operation of more than 3,000 industrial and commercial concerns, 150 leading banks and other financial institutions, more than 80 brokerage houses and various trade associations and governmental agencies. It represents the first systematic attempt ever made to determine the amount and character of foreign investments in the United States. In it there is particular effort to distinguish between the more volatile or potentially "shiftable" holdings and other investments which are less sensitive to the flow of international financial events or happenstance, since it is potential change in these volatile holdings—notably common stocks—that is capable of exerting the greatest influence upon our security markets. That influence for the past two years or so has been on the side of stock mar-

Types of Foreign Investments in the United States

(millions of dollars)

Type of Investment	Canada	Great Britain	France	Netherlands	Switzerland	Other Europe	Latin America	Other Countries	Total
Direct investments	322	362	14	249	13	62	5	18	1,045
Common stocks	408	372	142	196	214	350	19	314	2,015
Preferred stocks	66	146	19	13	32	30	3	20	329
Bonds	49	91	53	220	65	87	8	34	607
Other investments	161	403	54	106	75	123	8	109	1,039
Total	1,006	1,374	282	784	399	652	43	495	5,035
Percentage of total	20.0	27.3	5.6	15.6	7.9	12.9	0.9	9.8	100.0

ket advance and at times has been a very important factor in a market made "thin" by the S E C and Federal Reserve regulations. Especially because our market will remain relatively "thin" as long as present restrictions prevail—and there are no indications that they are to be relaxed—even a relatively moderate withdrawal from American equities by foreigners could exert a serious depressing force.

Classifying American stock holdings by foreign countries, Canada is shown to be the largest holder with a total of $408,000,000 or a little less than 20 per cent of the total. Great Britain is next with $372,000,000—a figure surprisingly small in comparison with Wall Street gossip of large "London buying" during 1934 and 1935 and when it is remembered that British investment trusts long have operated in leading American equities.

Switzerland is third in ownership of our stocks with a total of $214,000,000, Holland is fourth with $196,000,000 and France fifth with $142,000,000. Other European countries hold $350,000,000 in American stocks, Latin America $19,000,000 and the rest of the world $329,000,000.

It is surprising in the above figures to note that Swiss holdings are larger than those of either Holland or France; and that the combined Swiss-Dutch holdings, amounting to $410,000,000, are nearly three times those of France. The American investment holdings of these three countries are of especial interest to us because they are the only remaining nations in the world with gold currencies of pre-depression parities and because, therefore, the next monetary change or series of monetary changes capable of importantly affecting the international movement of capital is very likely to originate in this area, of which France is the spearhead.

In connection with the surprising size of Swiss stockholdings here it should be noted that the geographical distribution of stock investments cited above does not necessarily reflect the actual ultimate ownership. The country in which the nominal owner resides may not be the actual source of the investment funds, especially in cases where securities are held through the medium of a holding company, investment company or nominee. In short, a considerable part of the Swiss holdings probably represent funds that have come here from various other countries via Switzerland. To some extent the same may be true of investments classified as being in Dutch or British or other hands.

American bonds to a total of $607,000,000 are owned by foreigners, and just in passing to remind ourselves that foreigners are not the only ones to default on their obligations it may be noted that 16 per cent of this total is in default as to both principal and interest. Holland is by far the biggest holder of our bonds, with $220,000,000 or more than one-third. The Dutch bond holdings run heavily to rails and many of these investments have been held for decades. Dutch capital generations ago was participating importantly in the building of American railroads when the United States was chronically a debtor nation. No other nation's American bond holdings even closely approach the Dutch, Great Britain being second with $91,000,000.

Foreign holdings of our preferred stocks total only $329,000,000, and the British apparently go for these more than anybody else. That country holds $146,000,000 of such securities or considerably more than half the total, with Canada next at $66,000,000. Britain and Canada combined have 64 per cent of the total.

Foreign investors show an overwhelming preference for American manufacturing industries. Out of total common stock holdings of $2,015,000,000 more than half—or $1,054,000,000—represent manufacturing. Utilities are next with $327,000,000. Mining, including petroleum, is third, with $303,000,000. Foreign holdings of our railroad stocks total $169,000,000, while finance accounts for $81,000,000 and retail and wholesale distribution for only $69,000,000.

How Foreign Investments Are Distributed

(millions of dollars)

Type of investment	Manufacturing	Retail and Wholesale Distribution	Railroads (including other transportation)	Utilities	Mining (including petroleum)	Finance	Miscellaneous	Total
Direct investments..	510	61	222	6	230	*	16	1,045
Common stocks.....	1,054	69	159	327	303	81	12	2,015
Preferred stocks....	105	11	73	88	21	24	7	329
Bonds.............	27	1	313	180	13	5	68	607
Other investments...	....	....	....	...	...	332	707	1,039
Total.............	1,696	142	777	601	567	442	810	5,035
Percentage of total..	33.7	2.8	15.4	11.9	11.3	8.8	16.1	100.0

* Included in "Common stocks" and "Other investments."

Direct investments of $1,045,000,000 account for more than one-fifth of all foreign holdings. Such investments represent the total foreign interest in American corporations in which foreign shareholders have the controlling voice in management. Of this total of $1,045,000,000, manufacturing accounts for $510,000,000, or nearly one-half; mining and petroleum are next with $230,000,000; and railroads third with $220,000,000. The latter figure is accounted for largely by Canadian railroads owning lines across our border adjacent to their own systems.

In direct investments, that is real estate, manufacturing plants, etc., Great Britain leads with $362,000,000; Canada is next with $322,000,000; and Holland third with $249,000,000.

Of the total foreign holdings of $5,035,000,000, Great Britain accounts for 27.3 per cent; Canada for 20 per cent; Holland for 15.6 per cent; Switzerland for 7.9 per cent; France for 5.6 per cent; other European countries for 12.9 per cent and the rest of the world for 10.7 per cent.

Total stock holdings by Holland, Switzerland and France amount to $552,000,000, bonds to $338,000,000 and preferred stocks to $64,000,000. To what extent would devaluation of the franc, followed by similar monetary change in Switzerland and Holland, affect these holdings? No simple answer is possible. To begin with, a substantial part of these investments undoubtedly were made prior to revaluation of the dollar. Such investments, disregarding such appreciation as has occurred in our markets, would show an automatic loss of some 40 per cent if transferred to the gold bloc currencies. Thus, so far as exchange ratios are concerned, a 40 per cent revaluation of the gold bloc currencies would merely restore the ratio to what it was when some part of these investments was made. It is not believed that any nearby revaluation in these countries will exceed 25 per cent.

It is within the gold bloc's American stock account of $552,000,000 that gold bloc revaluation would have greatest effect. On a guess, we would say that probably not more than $300,000,000 would be withdrawn from the stock market in the event of currency revaluation on the part of France, Holland and Switzerland. The movement of short-

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Significant Foreign Events

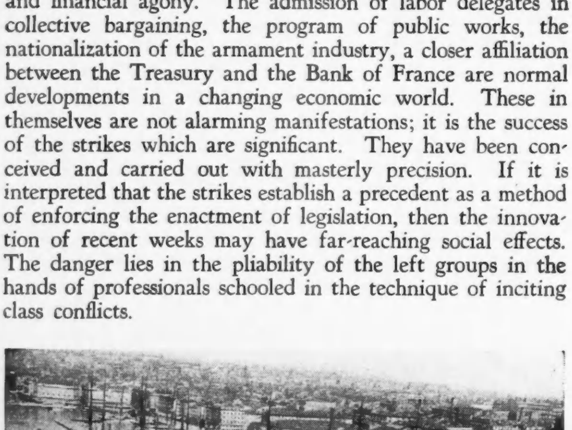
By George Berkalew

Foreign Representative of The Magazine of Wall Street

France's New Deal

France is passing through the labor pains of re-birth. Social unrest, manifested by the recent stay-in strikes, is the logical consequence of multiple causes. The innate conservatism of the common people, the "intransigeance" of capitalist employers, the grafts of successive governments grudgingly tolerated. These causes which produced the strikes are not peculiar to France. Conditions of labor under the old order had already changed in England and the United States, and most of the reforms instituted by the new Socialist government in France have long been familiar features in British and in American industrial life.

In the monetary upheaval of 1929 and 1930, France lagged behind the rest of the world, experienced much later the pinch of declining purchasing power and the shrinkage of security values. It is only logical that social reforms should crop out after a protracted period of commercial and financial agony. The admission of labor delegates in collective bargaining, the program of public works, the nationalization of the armament industry, a closer affiliation between the Treasury and the Bank of France are normal developments in a changing economic world. These in themselves are not alarming manifestations; it is the success of the strikes which are significant. They have been conceived and carried out with masterly precision. If it is interpreted that the strikes establish a precedent as a method of enforcing the enactment of legislation, then the innovation of recent weeks may have far-reaching social effects. The danger lies in the pliability of the left groups in the hands of professionals schooled in the technique of inciting class conflicts.



Wide World Photo

The Port of Marseilles where red flags fluttered from the mastheads in recent weeks

The prospect of a general strike in the future is then a matter of grave concern so long as the government remains sympathetic to the movement. Whatever the origin of the strikes, it is undeniable that the Blum government, in the last instance, tacitly accepted a procedure of questionable legality. Leaders were rendered impotent in the face of electoral promises. In other words, one can hold no brief against the principles involved in the June industrial revolution, only against the methods employed.

There is little likelihood that the scope of the movement will broaden, at least during the coming months. In fact, the magnitude of the last strikes exceeded even the proportions intended by Communist agitators. The economic field, in France, is not yet suitable to cultivate ideas of civil war. It is estimated that perhaps only 10 per cent of the stay-in strikers acted voluntarily.

A more insidious motive for destruction is the adamant stand taken by the Communists against devaluation. The continuance of the present deflationary policy would leave in its wake social evils which, if aggravated, would then prepare the soil for the seeds of Soviet anarchy. The costs of government, under the new regime, are estimated to add 4 billion francs to the actual 2 billion francs deficit, in the ordinary budget, not counting unrecorded appropriations for the National Defense and railway deficits. It cannot be expected that the industrial reform program can be financed through increased taxation. Both the manufacturer and the agriculturalist are already groaning under the burden of fiscal charges, and the reputed 35 per cent augmentation in production costs under the higher wage scale will further diminish the dwindling revenues from the profits tax. Furthermore, the disparity between French and world commodity prices is likely to increase by a minimum of 15 to 20 per cent when repercussions of the New Deal begin to be felt.

Under these conditions it is folly to attempt to maintain the present gold value of the franc. Yet apparently the attempt is to be made.

* * *

Belgium—Strikes Follow the French Initiative

With that same imitation which makes the Brussels Stock Exchange on many trading days a mere echo of the French, Belgian workers have gone on strike. Not only had French initiative been crowned with success, but Trade-Unionism in Belgium had the further incentive of a Socialist plurality in the elections of May 24. As in France, a government dominated by Socialists could hardly discourage Labor demands. Also, as in France, mystery still shrouds the origins of the Antwerp walk-outs. Individual workers seem to have started the movement, after which the Syndicates reluctantly were swung into line.

To a lesser degree than in France, Communist influence played its part, but what is more readily seen is the general

slowing up of the recovery process, a single factor which may easily explain most of the popular discontent. Belgium has suffered slackening business since the scare of a remilitarized Rhineland, and the alarming directions which the present French foreign policy has taken. "A curse on both your houses," is what the Van Zeeland government has been proclaiming. On the one hand, Belgium encounters the Franco-German embroglio; on the other, Geneva and sanctions, with a loss to business of 135 million francs. These two factors have deprived Belgium of a large measure of the returning internal prosperity which devaluation had created. Even the more wholesome effects of the recent American trade agreement are being discounted by propaganda emphasizing the flourishing condition of American automobile assembly plants which have supplanted almost entirely the moribund local automobile manufacturers.

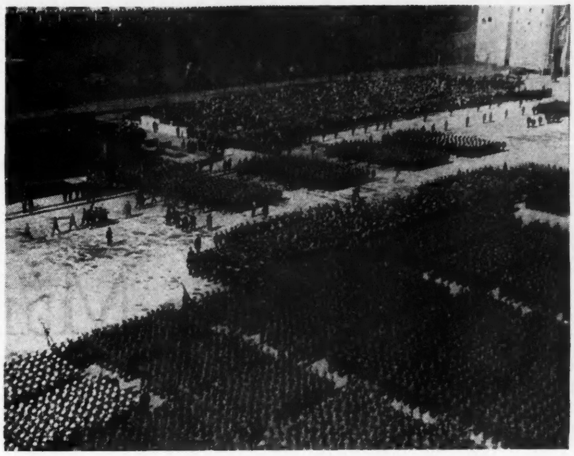
Belgian exports to America valued at 266 millions during the first four months of 1935 rose to 445 millions during the same period of 1936. Imports from the United States increased from 320 to 560 millions. In the popular mind, such concrete advances are obscured by rumors and anti-capitalistic demonstrations to discredit the banks and to characterize the Belgo-American commercial agreement as a betrayal of the domestic automobile industry. Thus, with real indication of slackening business activity coupled with a salacious attack against the so-called monied interests, the strikes broke out almost spontaneously. Commendable has been the firmness of the government in preventing the stay-in feature of the French strikes from crossing the border. Gendarmerie cleared the occupied mines near Mons and factory workers were not permitted to remain at their benches in the affected works near Liege. As in France, the concessions demanded were granted to labor, but the point to be remembered is that these concessions, with their attendant increases of production costs, come not before, but after monetary devaluation. Hence the new burden on both industry and the budget is likely to seriously impede the progress of Belgian recovery.

* * *

The Red Army

Interest in the Red Army of the U. S. S. R. reached its highest peak at the time of the conclusion of the Franco-Soviet pact signed in May, 1935, and duly ratified by the French parliament on February 13, 1936. There are, however, reasonable doubts as to the potential efficiency of Soviet assistance in case of emergency. Whether these doubts were based on fact or fancy can of course be proved only by the performance of the Red Army in actual combat, and fortunately this contingency has not yet arisen.

In 1935 the Red Army was endowed with five marshals, a title created at that time. The function of the five marshals was to counterbalance each other, since Stalin feared the ascendancy of Varoshilow, and the too close control exercised by his old companion in the civil wars—Jegorow. None of these five men had proper military preparation—Varoshilow had passed through two classes in his village school, spent seventeen years as a factory worker, in 1929 became the Commissar of the cavalry corps which came to such a sad end in Poland. Jegorow actually graduated from an infantry school of the lower order but subsequently took no active part in the military activity of the great war or the revolution. Tuchheshevsky had been a sub-lieutenant in the Czarist army, spent the greater part of his military career in a German prison camp, later distinguished himself as the cruel leader of punitive expeditions against revolting peasants, as well as the organizer of massed massacres of former officers. Blucher was a former factory worker and Budionnyi a corporal of a cavalry regiment.



Wide World Photo

The Red Army—doubts cast on its potency in actual combat

This is the general staff which in case of war will be responsible for the direction of an army of 9,200,000 men and the defense of a front line of 10,000 kilometers, not including the Finnish border and Turkestan-Chinese frontier. According to recent data, the Red Army will have a peace-time strength in 1936 of 1,300,000 men, as compared to the Russian army of 1914 of 1,450,000. Regular army divisions have a military training of from two to four years and serve further in the reserve; the territorial divisions go through a short three-month training period and are called later for brief reserve exercises. The 66 regular divisions represent 77 per cent of the total fighting force; territorial units, 23 per cent. Cavalry occupies an important position in the military organization, with 23 divisions.

A modern army, especially in Russia where long-distance transportation is an essential feature of proficiency, requires a well-trained technical commanding corps, and this is where the Soviet army falls down. In 1935 Stalin is quoted as saying: "Had the Red Army well-trained commanders, with the mastery of modern technique, the fighting forces would be three or four times more efficient." It was not until ten years after the revolution that the government recognized the necessity of higher education for its officers. Until 1932, all officers had not more than a few years of perfunctory schooling, since, as a contingent of the new regime, officers could be recruited only among the workers and peasant classes. In 1934 it was officially admitted that 10 per cent of the staff officers and 20 per cent of the higher officers had no special military training. Since then, the total force of the army has been doubled and officers are now obliged to take special courses in so-called higher education. According to an item published in the Army paper, "Red Star," in 1935, "the program of studies includes two hours for geography, four hours for the study of modern history of European and Asiatic countries. Between February 1 and May 1, 1935, the officers learned to divide by 2, 3 and 4 and to add and to subtract simple figures. If they progress with this rapidity, they may attain in fifteen years a requisite knowledge of mathematics." The lack of proficient teachers accounts to a great extent for this slow progress since 1932. At this period, there were 18,000 posts for teachers available. The situation does not seem to have improved materially since many schools have been forced to close, and of the 450 graduates of the best pedagogical institute of Moscow, not one could spell correctly.

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If the Government continues to foster easy money and Federal spending to lift bank deposits, bonds will be sustained.

If business demand for credit increases and Federal policy swings to the more conservative, lower prices are inevitable.

A Bear Market in Bonds?

By J. S. Williams

A BEAR MARKET in the best bonds? This is a question being asked everywhere by individuals and by the executives of savings banks, insurance companies and the like, all of whom fear the consequences of such a happening. It is being asked by corporate officials, who hope that bonds will stay at their present heights and thereby permit a continuance of the present sensational series of exceedingly profitable refunding operations. Because it embraces a consideration of the whole business-politico-monetary outlook which is clearly of vital importance to everyone, there is no single question of greater moment today than the future course of the bond market.

Bonds are higher today than they were in 1927 or during the closing decade of the past century when all previous records were shattered. When such a rarified atmosphere is reached, it is wise to stop, look and listen.

That the question is being asked so widely, however, is indication enough that opinions differ greatly. One group of experts foresees a long period of easy money and high bond prices, another group foresees the crumbling of a boom. The average investor is naturally confused; he knows that his income has been cut from a third to a half as dozens of 5½ per cent and 6 per cent issues have been refunded at 3½ and 4 per cent and he fears that his capital will be trimmed as was his income should prices swing the other way. One cannot be dogmatic over a matter as complex as this one, but something very definitely is to be gained by a review of both sides of the question.

First of all let us concede that bonds are indeed high. They are higher than they were in 1927 when the American people apparently had so much money and were so eager to invest it that they lent it abroad with an indifferent consideration of how it was to be repaid. Today, bonds are higher than they were during the final ten years of the past century, a period which saw the establishment of the previous all-time record. Indeed, one can go even further and say that bonds in the United States today are higher than were bonds in England during the 1890's when they were at record highs in that country and she was at the peak of her power and prestige. When bonds or anything else arrive at such a rarified atmosphere, it is best to stop, look and listen. At the best they cannot go much higher, and, at the worst, may move considerably lower.

While acknowledging that bonds are high and that they obviously cannot go *much* higher, the argument of those who can foresee nothing more serious than small technical reactions in the present market rests mainly on the money supply side. They point out that although the excess reserves of the member banks of the Federal Reserve System are below the all-time peak for $3,300,000,000 reached last December, they are nevertheless not far from the three-billion-dollar mark. Moreover, with a continuance of the difficulties abroad in France and elsewhere, the gold flow to this country proceeds apace. The gold is consigned to the commercial banks, which sell it to the Treasury as they must, and then deposit the proceeds in their Federal Reserve Bank. As a passing note of current interest, might be mentioned the probability of the payment of the soldiers' bonus bringing about a temporary sharp reduction in excess reserves. This is because member banks will draw on their balances with the Reserve Banks to pay for the bonus bonds. Upon the Treasury's disbursing cash to the veterans, however, it should not be long before the money finds its way back to the banks again, resulting in an increase in deposits and also in excess reserves.

So long as the banks have large excess reserves they will be diligent searchers for ways in which to lend. This does not mean that they are willing to take chances—they will probably reach such a stage before this whole cycle is over, for there are the first indications of it in the distinct tendency to broaden the term "high-grade bond" to include issues which a year or two ago would have been classified as "medium" or even "second" grade. But as has been said, the banks are not at this stage yet, a fact abundantly supported by the apparently insatiable demand for good issues.

Nevertheless, it does not follow necessarily from the mere fact that bonds are in good demand now that the situation cannot change and this takes us to the arguments of those that see such a change in the not too distant future. This side of the question is not as sound technically as the other, but it may be right and prove that those who see no decline are wrong. To those who look for a break in bond prices, the present market has an appearance similar to the stock market in 1928 and 1929. It will be recalled

that then stock prices were daily moving to new record highs; that business was good, profits large and, though high in cost, credit was abundant except towards the end. Over all there was a feeling of political stability. The advocates of the "new era" theory clearly had all the technical arguments on their side. Yet, this did not prevent the most horrific crash and a terrible aftermath. Now, we know no one who foresees a crash in bonds comparable to the crash in stocks in 1929; those that foresee decline, foresee a drifting decline and merely cite the late boom in stocks to make their point that securities can decline, and *have* declined, when everyone is least expecting it.

Possible Causes of Decline

The specific factors that might bring about a decline in bonds are usually listed as (1) A business and commodity boom in the United States which would necessitate tremendous financing operations; (2) Actions that might be termed artificial tinkerings with the banking structure with a view to correcting today's abnormal conditions; (3) A change of heart on the part of the Government which would include policies apart from the banking structure; (4) A loss of confidence in dollar obligations, probably coinciding with a flight of capital abroad.

Each of these factors undoubtedly has the power to tighten money and bring about a decline in bonds, but some are much less likely to happen than others—or rather some appear more likely to happen before others. For example, it is almost inconceivable that within the next year or two this country could see a business boom of such dimensions as to tax its credit facilities. Of course, business is on the uptrend and everything points to its registering further improvement; likewise everything over the longer term points to a further rise in prices, notwithstanding the recent little dip to the contrary. Business as yet, however, is not running wild and shows no signs of doing so.

Before it embarked upon such a stage, in all probability the second of the factors cited as possibilities in tightening money would be tried. This is the artificial tinkering with the banking structure and includes the arbitrary curtailment of excess reserves by the simple expedient of making reserve requirements larger. The power to do this is in existence; it is, however, an untried power and no one knows quite what the effects would be. At the present time when excess reserves are so large the action would have to be very drastic indeed to have other than psychological effects, although the latter might be quite severe, particularly among country banks whose position is not as formidably strong as the big city institutions.

Or, the Federal Reserve Banks might curtail excess reserves by reversing the process that brought them about, i.e., by the sale of Government securities. It is to be noted that it is not as is sometimes supposed the budget deficit and the consequent borrowing on the part of the Government that has been the reason for the excess reserves, but rather gold imports, the issuance of money in connection with silver and the purchase of Government paper by the Reserve Banks. Mere borrowing and spending on the part of the Government tends to reduce excess reserves, for it results in an increase in bank deposits against which it is necessary to keep reserves.

Now, how likely is it that excess reserves will be curtailed, or that the Reserve Banks will sell governments? They are both possible, but only upon a very minor scale. The authorities are forced to tread cautiously, lest they stub their own toes. In the first place, as long as there is a Federal deficit, it is in the interests of the Treasury that money be easy. Today, the Government can borrow on short-term cheaper than the mere cost of printing money, so conceivably it might submit to slightly increased costs of borrowing. But it would certainly not be in the interest of the Government to pay materially more, lest the deficit and the national debt rise faster than ever.

Banks Glutted with Governments

In the second place, it is a fact not generally realized that the twenty largest banks in the country have well over a third of their total resources invested in the obligations of the United States Government. Also true is the fact that it would not take much more than a 10 per cent decline in the market price of these obligations to wipe out the entire capital and surplus of the Federal Reserve member banks. The effect upon savings banks and insurance com-

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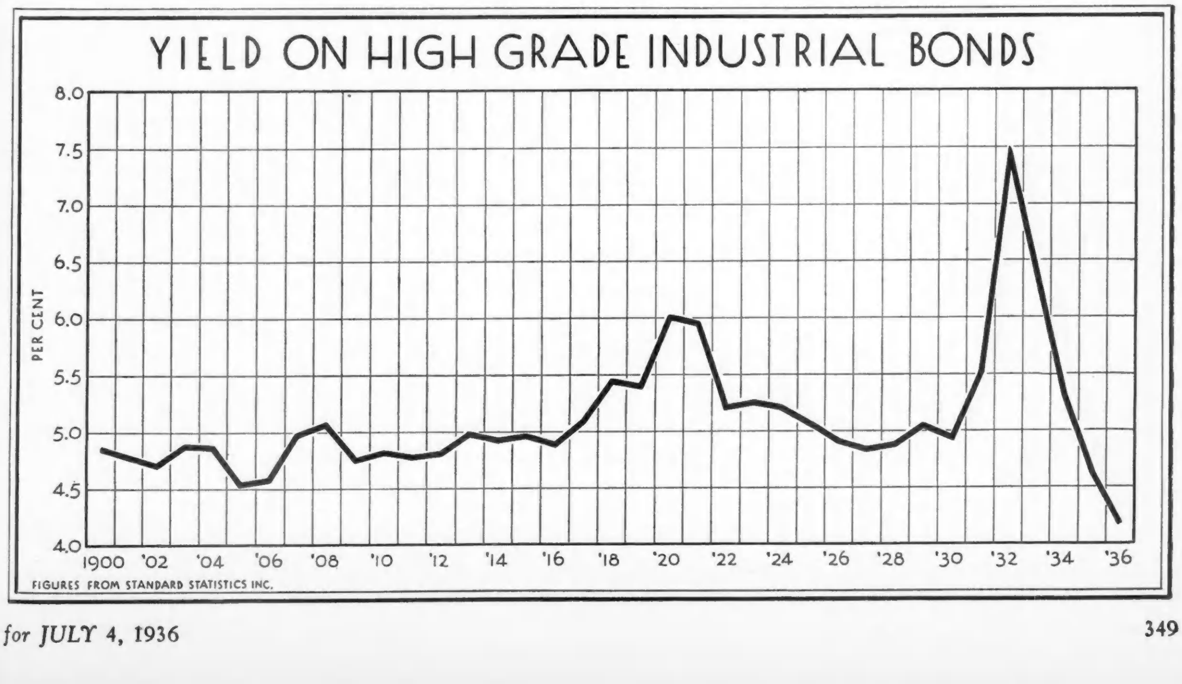


Speculating Without Knowing It

In Our Efforts To Avoid One Hazard We Head Straight for Two Others

By Morton Thorndyke

Once upon a time Jack and Jill got their hands burned playing with fire. They remembered the lesson. Dreading fire, they never again went close to it—but it did not occur to them that there are various other ways of getting hurt. A few weeks later they foolishly played tag in the street and were run down by an automobile.

That is our own version of a fairy tale and a moral that the American people would do well to ponder today.

The stock market came crashing down in 1929 and a great many people were burned. Our Government, which is attempting to plan out our national way of life much more comprehensively than ever before, resolved that the experience of 1929 would never again be repeated.

To this end it has placed restrictions on stock speculation. As the market has advanced it has drawn those restrictions tighter, even though brokers' loans today are but 12 per cent of what they were in 1929 and even though the total credit employed in stock speculation is but a tiny fraction of available bank credit, the gold base of which has been enormously expanded since 1929.

Avoiding Another 1929

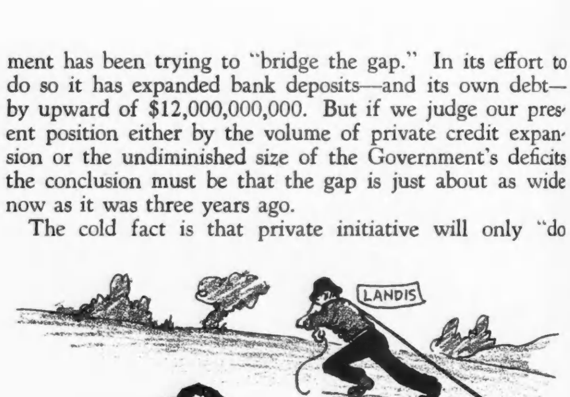
Here we have in striking form the fallibility of the human element in economic planning. The thought uppermost in our national mind is that the 1929 stock crash must not be repeated. We are concentrating so much effort on its prevention that we are oblivious of other dangers. We are so afraid of the fire that we give no thought to the possibility of falling down stairs or getting hit by an automobile.

With what result? Simply this: Government on the one hand throws increasing doses of cold water on the spirit of speculation; while on the other hand the same Government expands bank credit far faster than it was expanded in the 1923-1929 boom by private speculation and business enterprise combined.

"But," says the Government, "we *have* to expand credit because private initiative is not doing so. As soon as private initiative revives so that its operations will maintain the necessary volume of bank money we will taper off what we're doing. We are merely bridging the gap."

Well, what happens if, while you are building the bridge, you keep widening the gap? May that not be precisely what the Government is doing? It wishes a revival of confident private initiative—but on the Government's terms, according to new rules of the game drawn up by the Government. It is now more than three years that the Government has been trying to "bridge the gap." In its effort to do so it has expanded bank deposits—and its own debt—by upward of $12,000,000,000. But if we judge our present position either by the volume of private credit expansion or the undiminished size of the Government's deficits the conclusion must be that the gap is just about as wide now as it was three years ago.

The cold fact is that private initiative will only "do



business" on terms satisfactory to it. No question of morality or social conscience is involved. The profit system is just what the name implies and always has been. If it were actuated by any other motive than profit it would not be a profit system. If the Government knows a more effective system and can convince us it will really be more effective,

well and good. If it doesn't, the credit bridge it is building will never fill the gap until the Government offers terms that private initiative regards as satisfactory. Business will not borrow money for expansion in normal degree unless there is a reasonal probability of profit that will justify the risk—not a certainty, just a reasonable probability.

Meanwhile the underlying stalemate is unbroken. Meanwhile at Washington deficit follows deficit with monotonous regularity. Meanwhile the Federal debt mounts higher and higher.

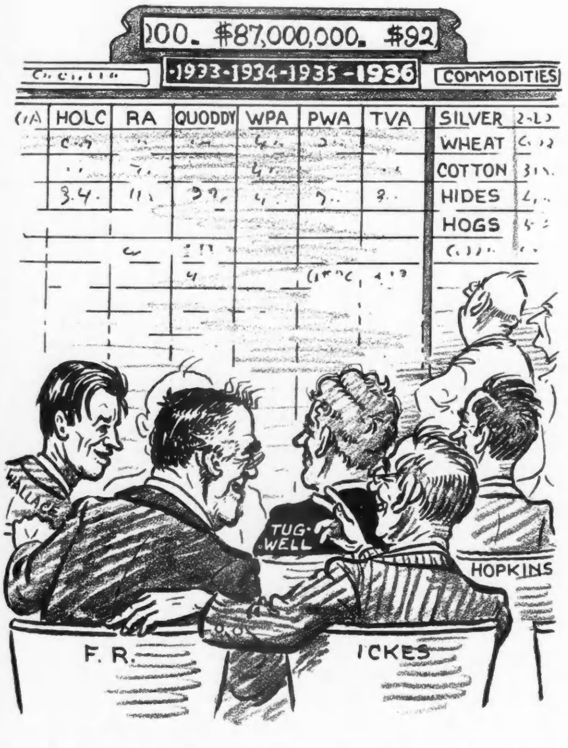
No breaking point in the Government credit is in sight—but we know beyond any doubt that no credit expansion—whether privately managed or managed by the New Deal—can run on forever. There will ultimately come a time of credit contraction, following credit expansion as surely as night follows day.

Then what? We have seen the Government's credit expansion put up the stock market in the past sixteen months as sensationally as it went up during any similar period of the late lamented over-speculation between 1924 and 1929. It will go down just as surely on contraction of Government credit as it went down in the recent depression on contraction of private credit.

We Speculate by Proxy

We haven't stopped speculating. The difference is that the Government is doing our speculating for us and such private speculation as is being carried on is being financed largely with Government credit.

Through the Government we are speculating in crop



control, betting against the unpredictable vagaries of the weather. Through the Government we are speculating in silver that the rest of the world doesn't want. Through the Government we are striving might and main to whip up a land and building boom, encouraging twenty-year mortgages—a Godsend for speculative builders—on structures that may or may not be worth the mortgage twenty years hence. Through the Government we are speculating on price-fixing for bituminous coal, even though the price fixed probably will divert still more of this market to fuel oil. Through the Government we are speculating in cotton and hides. Through the Government we are speculating in electric power developments and wondering why the private utilities refrain from expanding their facilities. Through the Government we are speculating in slum clearance, subsistence homesteads, population resettlement and a host of other projects and undertakings which may or may not prove to have been wise, which may or may not prove to be worth the money spent—all at a cost of billions, financed by Government expansion of bank credit.

What in the long run does it matter if the generating force behind credit expansion be New Deal altruism or the private profit motive? In either event there is the risk of over-expansion, followed by painful contraction.

So we are putting the screws on the stock speculator. He must not be permitted to absorb more than a few drops of bank credit. There must not be another 1929.

It is quite *probable* that there will not be another 1929, any more than there will be another 1901. Financial crises under our system seldom originate out of the same cause or set of causes. We always remember the last cause or think we do, but we forget the other possible causes.

If we continue on the present course the next financial crisis will be a crisis of Government credit, not direct stock market credit. If we continue on the present course there may ultimately be a crisis centering in land and building speculation. Both of these dangers are potential. The danger of a stock market boom is also potential. The point is that of these three potential dangers, we are concentrating on preventing the one that burned us in 1929 and forgetting the others. Of the three, by far the gravest is the danger of ultimate crisis in Government credit. That danger, you might rightly say, is still distant—but each week we draw nearer to it.

How can we avoid it? Only by bringing about a restoration of confident private initiative. To this end, along with the relaxation of other political restraints, it would be an excellent idea to ease the brakes on the stock market. There has never been a period of business prosperity without private speculation. Every expansion of our capital facilities is basically a speculation, whether it be financed by bond or stock issuance or by bank credit. An active stock market is far more likely to whet the profit motive and stimulate the spirit of capitalist initiative than any amount of spending and lending that it is feasible for the Government to undertake.

Deflation Is Still with Us

This is not an argument for throwing away the brakes on stock speculation. They should be kept in good order, ready for use—but why press them to the floor when the stock market, the national income, our vital capital goods industries are not yet free of the grip of depression? It will be time to get alarmed about a market boom when business activity has recovered to some approximation of normal. Whatever may be the difference of opinion as to what precisely constitutes that normal level, there is certainty that it still lies some distance ahead of us. With allowance for a growth of 13 per cent in our population since 1929, not much more than half of the depression loss in aggregate economic activity has been made up. Our present ailment is continued deflation.

The country would be better off if brokers' loans were a few billions higher and Government debt a few billions lower.

Profits Follow the Pendulum of Change

The Challenge of New Industrial Competition

By Ralph L. Woods

EVERY time you learn of an industry declining, or a disproportionate drop in the consumption of an article of commerce, remember that a profound soul once pointed out that only change is permanent. If alive and close to the economic front today this sage, no doubt, would say that both competition and change are permanent. Or, perhaps he might say that competition is permanent and induces change. In any event, it is true whether uttered by a philosopher or the corner grocer.

As the nation steels itself for the quadrennial name-calling and tocsin-sounding contest now beginning, this word *competition* will be flung recklessly about. But business men know it as a familiar force of many components. For the most part they recognize it as a friend, if sometimes disguised, and as the generator of vitality and progress in our economic life. Moreover, they know that competition and change are related to each other in much the same fashion as profits and dividends. Incidentally, there you have four major, successive steps of healthy industry—competition, change, profits, dividends.

Courtesy, Owens-Illinois Glass Co.

Glass blocks are supplanting bricks

Because competition is subject to varying interpretations it is well to make clear the exact kind under consideration. It is not the intra-industrial competition that suggests Fords vs. Chevrolets, Chesterfields vs. Camels and Maxwell House vs. Chase and Sanborn. Rather, it is the duels between steel and aluminum, coal and oil, plastics and glass, railroads and trucks, cotton and rayon, to mention but a few.

The peaceful but unceasing warfare of business has not shifted to new ground; it has only been extended along a wider front by the technologists, chemists, metallurgists and inventors. U. S. Steel, for example, has not only to think of Bethlehem and Republic. It must also keep an eye on aluminum, lumber, and those numerous metallic mixtures known as alloys. This means it must develop new products and new uses for the older materials. Generally, this means new sources of profits.

It is fitting, indeed it is imperative, that this discussion should look first to chemistry; an industry dedicated to, thriving on and, in truth, synonymous with change. It has been well called the common laboratory of all industry. Once merely content to take "elements" apart and analyze them, today it puts them together again in all sorts of strange combinations to produce hundreds of new materials and commodities that are basic in our material civilization. Surely we cannot here adequately define this industry. Certainly we dare not limit its achievements, activities or potentialities. But we can observe some of its recent accomplishments, and their effect on the industrial scheme.

Remember about ten years ago when rubber was $1.25 a pound due to the manipulations of a foreign monopoly? Well, that will never happen again because the du Ponts—expert jugglers of molecules—have taken coal, limestone, salt and water and produced Duprene, a man-made rubber in some respects superior to the natural product. While its price is high, it is expected that large-scale production will make it cheaper. Although too early to hazard prophecy as to possible uses, it is not too soon to suggest that it be watched. However, don't concentrate upon it so much that you overlook the consequences it may have on other materials now popular, nor so intently that you fail to recognize other magic being wrought in the nation's laboratories.

Rayon, the first synthetic textile, is an earlier but none the less great chemical triumph. Made from cotton linters

or wood pulp, the consumption of this new fabric is now four times the consumption of silk, sixty per cent that of wool and nine per cent of cotton. It is particularly worthy of note and commendation that rayon was not promoted as a silk substitute, but as a new textile material. While rayon flourished cotton faltered, suffering, too, from the loss of foreign markets. But now cotton has branched out as a raw material for motion picture film, cellophane, numerous plastics, and more recently as road building material. Today industries prosper to the extent that scientific research guides them.

As rayon began to mature and cotton to revive along came ramie, or Chinese grass, with the announcement that it is a strong, natural fiber for clothing and paper. The ink is hardly dry before a Connecticut cotton mill opens for the production of "artificial wool" derived from such vegetable fibers as hemp, jute and special grasses. It is said to make a stronger and less costly fabric through mixture with genuine wool. Maybe it will thus help more than hinder wool.

When the Owens-Illinois Glass Co. announced they could turn milk bottle glass into a chic hat or a soft rug one expected to hear next that Stalin had become a Morgan partner. But both Owens-Illinois and the Corning Glass Co. will show you the molten glass coming out in long, thin fibers; a soft, fluffy mass and light as a feather. At present it is used principally as sound, heat and electrical insulation. But from it thread can be produced. Maybe the du Ponts heard about it. Anyway, they counter with a new synthetic fiber, one-third thinner than silk, and so light that a one pound ball of it unrolled would stretch clear across the United States. This new rayon gives warning that chemistry never rests on its laurels.

New Fabrics to Come

Other fabrics at or approaching the commercial stage include those that are shower-proof and soil-resistant, those that will not wrinkle or lose shape in wear, starchless collars that keep their shape after washing, and moth-proof material. Garment manufacturers have begun to talk about, and maybe worry a little over a cellulose substance which, when perfected, may enable men's suits to be tailored merely by pouring the substance over a form on the body, and allowing to cool.

Recently a du Pont executive said that during the previous two years 400 new products had been introduced by the American chemical industry. Because demand must first push prices down, it will often be a matter of years before they can be developed on a large scale. Meanwhile, many of them are bound to be replaced by other products resulting from later discoveries and improved processes. But it is not difficult to believe this man. For example, du Pont now makes an artificial sponge of cellulose pulp. New paints, synthetic lacquers, new kinds of alcohol, explosives and plastics are routine occurrences. Various alcohols and acetones are produced from petroleum and its gases while scientists say that the undeveloped by-product potentialities of petroleum are enormous. Some experts predict the eclipse of soap as a cleansing agent. In fact, soap substitutes are now being manufactured by the soap industry and tested by the textile industry. If the new cleansing agents replace soap, what will soap replace as it ventures forth in search of a market?

One of the hottest battles is between the chemical and oil industries. The chemical industry wants high-proof alcohol blended with gasoline, by law if necessary. They claim this will help the farmer and provide a better motor fuel. The oil industry disagrees. The U. S. Bureau of Standards says both are wrong. But the feud continues.

Nesmith Photo

Converting soy beans into automobile parts

The Quaker Oats Co. has developed a cheap process for extracting furfural, akin to formaldehyde, from oat hulls. This is used in plastics, varnishes, solvents, dyes, glues and fly repellants. It is especially good for solvent refining and the cleaning of lubricating oils. Texas Corp. and Gulf Oil both use it. Apart from furfural itself, there are twenty-four undeveloped derivatives, including alcohol.

Dry Ice illustrates the varied uses to which a product may be put. Of course, it injured the water ice industry, made it easier for motor trucks to haul perishables long distances in competition with the railroads, and aided ice cream sales. But it is also used to shrink metals in bridge construction and motor plants, produces low temperatures in testing the viscosity of oils, is used as a cautery in surgery, as condensing material for mercury in the manufacture of Neon signs, and is employed in the manufacture of golf balls and radio tubes. This is the new salesmanship.

Many of the possibilities for change revolve around agriculture. Farming is destined to change both in character and products. Fodder crops for cattle and poultry are now being raised synthetically in Europe. For example, seed corn is placed in oven-like cabinets. An appropriate chemical food is provided. Soil is not used. The plants supply their own heat. Within a few hours the corn begins to sprout. In ten days it is a foot high. This produced five times the volume of seed planted in the ground. Dairy farms find it economical. It is predicted that eventually every householder will grow his year round supply of vegetables in the kitchen or basement. Recent experiments in California reveal the possibilities: Tomato plants yielding 217 tons per acre of tank area, potatoes, beets, celery and other vegetables are made to produce huge quantities without one square inch of soil but with the plant roots extending into tanks containing the proper concentration of plant food solutions.

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A Contrast in Price Trends

Cocoa Rises in a Free and Uncontrolled Market While Tin, Despite Heavy Demand, Declines Under Regulation

By C. S. Burton

S. S. ZAREMBO (AM) June 16
From Lagos
Balfour Guthrie....................1,084 bgs. cocoa beans
Busi & Stephenson................2,394 bgs. cocoa

As the good ship "Zarembo" sailed from the Gulf of Guinea and the Gold Coast of British West Africa with hundreds of bags of cocoa beans destined for New York, a part of her cargo might well have been tin ore from Nigeria on its way to West Hartlepool or Liverpool smelters.

It is in the contrasting action of the market that tin and cocoa have a momentary relationship in discussion. It is just an odd coincidence that both come to this country by long sea voyages and that often the two are cargo mates, so to speak. Nigeria in British West Africa exports both, and we use both in quantity.

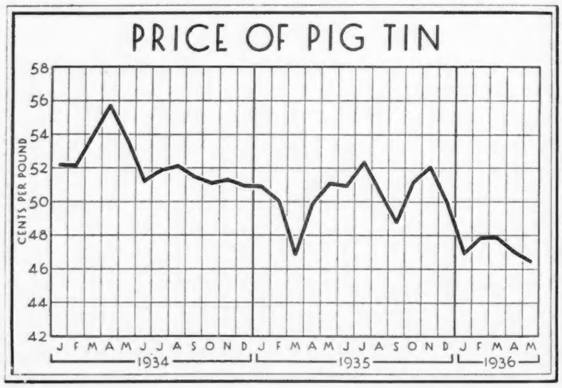
The market-wise contrast is that tin goes down, cocoa goes up and once again it is demonstrated that so long as an element of market freedom remains, it is the consumer who has the last word. That, in the long run production of any commodity in world trade, is determined by what the consumer is willing and able to buy.

It is a vital part of the thesis of Ortega y Gasset in his notable work "The Revolt of the Masses" that the great body of people throughout the Western world have come to feel that the "material . . . organization, placed at their disposal like the air, is of the same origin, since apparently it never fails them, and is almost as perfect as the natural scheme of things."

Galloway Photo

Intricate scaffolding in the tin mines—Malay States

It is much the fashion in some quarters to decry hotly the importance of our foreign trade. The same man who uses percentages in this argument with devastating effect will exemplify Ortega's description by stopping at the corner on the way home to have a chocolate ice cream soda—chocolate syrup, vanilla ice cream. When he arrives home he will have for dessert some Hawaiian pineapples and some



of the vacuum-packed coffee that is so much on the air. He will have no thought of how each one of these acts contradicated his argument with finality.

The chocolate, made from cocoa beans, the vanilla, the pineapple, the coffee and the tin containers of the last two, all figure in foreign trade, not incidentally but largely, and yet almost anyone of us would argue over the relative importance of our imports and exports, unthinking, while all the time we would be leaning so heavily on world commerce.

There is nothing used in our daily rounds that serves us in more different ways and is treated with less respect than tin. The final consumer throws it away. There is no rubbish more completely "rubbish" than a wheelbarrow load of empty tin cans—ask any suburban dweller who is obliged to bury them—nor is there any article more necessary today in the distribution of food and hundreds of other items of daily use.

We have no tin; it has long been a dream of the prospector to find a tin deposit. Serious committees have pondered at great length and pompously discussed with the trade the matter of possible substitutes for tin as a necessity in national defense. Exportation of tin scrap is prohibited, except under special license.

In large part our anxiety has arisen, not from any existing lack of actual tin in daily commerce, but rather from the formidable international measures of control adopted, by

producers, while we have been and are merely the largest single national consumer. Again it appears that men fear the shadow of power more than its actual exercise.

We have already discussed in these columns the international tin agreement operated by the International Tin Committee. The signatory countries are Malaya (British and native); Bolivia (Patino); Netherlands East Indies (Dutch); Nigeria (British); others joining the pact under special terms were the Belgian Congo, French Indo-China, Cornwall and Portugal.

It was rather generally conceded that the Tin Control Scheme was strongly entrenched and that of all the restriction plans, it was one which bid fair to endure, the price to work to somewhat higher levels and one of the dreams of stabilization to come true. Nevertheless, the market has been hampered, afraid of control action, natural trade factors ignored as secondary, an unhealthy condition.

U. S. Consumption of Cocoa Beans

Years Ending Dec. 31	Price† Cents per Pound	Pounds Imported	Value $
1927	13.4	424,987,077	56,815,964
1928	12.4	379,227,111	47,204,521
1929	9.8	507,580,335	49,493,383
1930	8.4	373,232,535	31,219,338
1931	5.6	418,159,183	23,282,193
1932	4.1	479,562,000	19,676,000
1933	4.0	474,196,000	18,735,000
1934	4.4	441,583,890	19,364,017
1935	4.3	606,310,791	26,565,557
1936	6.3*	....	....

* Current spot price.

† Value in market from which exported to U. S.

Our own demand for the metal is one of the principal factors in the tin market. In 1935, we accounted for 43 per cent of the total world consumption; we used almost 3 times as much tin as the United Kingdom and almost 6 times as much as Germany. Our consumption of 62,292 long tons of 2,240 pounds, was 44.65 per cent of the total world production. A position which entitles us to some consideration.

For weeks, the tin market has been inclined to crumble. Buyers have remained aloof, partly fearing purchases might show an immediate loss and partly general lack of confidence rather than the mere matter of price.

Now the Committee is halting and uncertain. What is to happen is largely in the hands of the Malayan producers who have an advantage in production costs; in the hands of the Siamese producers who insist upon a greatly increased quota—or else.

We are relegated to the role of bystander in the conflict of the producers. In the meantime, we use tin—lavishly.

The can industry uses tin plate—black sheet steel dipped in molten tin and sold by the "box." In the making of the huge volume of tin cans, we have the last word in automatic machinery, and in the use of tin, no effort in research has been spared.

The ordinary tin can that we toss away so lightly is 98½ per cent steel and 1½ per cent tin. True, we are obliged to toss the empty cans away, but we should appreciate just what they mean a little better. Tin cans use more steel than any other industry save the automobile, nearly 2,000,000 tons per annum, and we produce about 12,000,000,000 cans of all imaginable shapes and sizes and the tin costs us in round figures $70,000,000 U. S. currency.

These huge figures would rather tell that we are interested in a fairly stable price structure for the raw material and a dependable, steady market supply. If control is to continue it must regain and retain the full confidence of producers and consumers. Otherwise, tin will continue to get out of control.

All in all, it is fair to say that restriction plans have not yet been perfected to a workable basis. The roll of failures is a long one and tin as a last survivor, is undeniably in a critical condition; under the oxygen tent, so to speak; and the Tin Control Scheme had more elements in its favor than any important restriction plan among all that misbegotten tribe which has afflicted trade—domestic and foreign—since the World War. The consumer, anywhere short of an authoritarian state, has the last word. Price control requires an omnipresent dictatorship.

We can turn to look at cocoa by way of contrast in market behavior. There has been no projected control of cocoa. It never joined that procession made up of cotton, wheat, sugar, rubber, copper, in every one of which attempts at price control ended in disaster. For the time being cocoa enjoys a natural buoyant market, altogether healthy. A market in which buyers and sellers can study crop conditions over a wide field, for cocoa comes to us from a lot of places beside Accra and Logas on the Guinea Coast. From Venezuela, from Brazil, from Trinidad, Santo Domingo, from Ecuador; it comes in duty free as a bean which is cleaned, dried, roasted, ground to make chocolate for candies, pressed to take out the fat where cocoa is to be made.

There is more to this last statement than meets the eye. Cocoa was too cheap for a long time, so cheap that candy makers quit pressing out the cocoa butter and substituting other fats. Consumers like quality—when they can get it—and the disappearance of cocoa waxed apace—as chocolate bars were both richer and larger.

Last year we used 606,000,000 pounds of cocoa beans, nearly half of the world production. It cost us $26,565,557. We paid $26,000,000 for cocoa, roughly 4.34 cents per pound. We eat chocolate in candy and cake, drink it at the soda fountain, the British and Continental users drink cocoa. Hershey accounts for 30 per cent of our imports. Eight million dollars in Hershey inventory of raw materials, as of December 31 last, may be taken as largely cocoa beans in bags and in process, and this item would now show a handsome profit on a current balance sheet and will show a handsome profit as we begin to pay for smaller candy bars.

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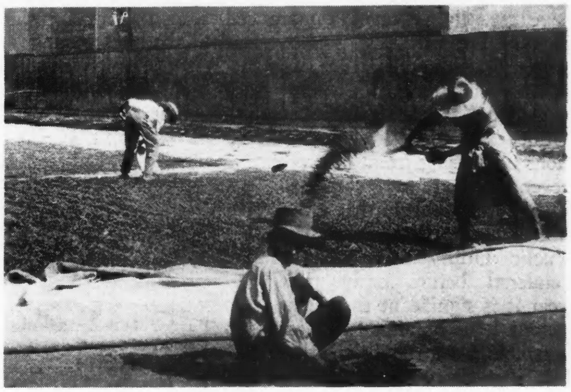


Hoit Photo from Nesmith

Drying cocoa beans in Ecuador

Dynamic Promise in the Still Young Field of Natural Gas

Sales and Profits Rising

By MUNROE E. MARSHALL

IT has been facetiously remarked of late that a good way to bet on the outcome of the forthcoming national election is to purchase the shares of leading public utility holding companies. Should the Republicans win the election, so the reasoning goes, this group of stocks would be almost certain to rise in value for public utility regulation is only vaguely touched in the Republican platform. Should the Democrats be kept in office, then public utility holding company issues would be unlikely to sell any lower than they are now.

Be that as it may, the fact is that public utility shares have recently reflected a more confident attitude on the part of the investing public. Rather than suggesting a sudden eagerness to place wagers on the election in this manner the strength in utility issues in all probability emanates from a growing belief in the invalidity of the Public Utility Act of 1935 coupled with the favorable implications of a rising trend in gross revenues and net earnings. While it is unlikely that a Supreme Court decision on the Public Utility Act will be rendered before early next year it is significant that competent legal opinion is almost unanimous in the belief that the Act is unconstitutional. Meanwhile larger incomes and rising industrial activity have stimulated the use of public utility services to a point where many companies have been able to offset such items as increased taxes, reduced rates and higher wage and material costs.

To favorable conjecture as to the ultimate fate of the Public Utility Act and the tangible evidence of better earnings must be added the fact that utility issues as a group have for obvious reasons not enjoyed the same measure of advance as that scored by industrial issues. Together these factors provide a promising basis for what might well prove to be unusually profitable speculative commitments. Specifically the choice of Columbia Gas & Electric common stock would seem to have much in its favor.

This company has firmly established itself as one of the foremost organizations in the natural gas industry, undoubtedly one of the most dynamic divisions of the public utility field. Electric power and light properties are also included in the company's system but it is the sale of natural gas which supplies some two-thirds of the total revenue and it is natural gas that dominates the company's prospects, both current and future. To comprehend the significance of this condition it is necessary only to review briefly the late highlights of the natural gas industry.

As a fuel, natural gas has superior qualities which give it a natural competitive advantage over coal, oil, manufactured gas and electricity for both industrial and domestic use. These qualities include high heat content, high combustion efficiency, ease of handling and control. The use of natural gas relieves industrial consumers of the necessity of carrying large fuel inventories. Natural gas may be adapted to any purpose for which manufactured gas is used, with the additional advantage, however, of having a higher heat content. The heat content of manufactured gas averages about 530 British Thermal Units per cubic foot, while that of natural gas is about 1,100 British Thermal Units.

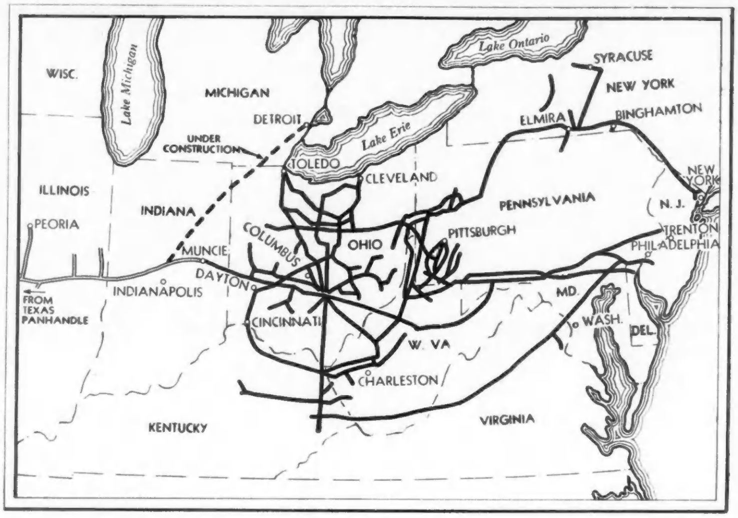
Considerable impetus has been given to the use of natural gas by the greater accessi-

Highlights of Columbia Gas & Electric System

Number of Communities Served	1,356
Number of Customers (Gas)	1,052,194
Number of Customers (Electric)	328,482
Gas Rights (Acres)	4,351,829
Pipe Lines (Miles)	29,948
Gas Revenues 1935	$54,518,119
Electric Revenues 1935	23,935,226

Capitalization and Earnings

Consolidated Funded Debt	$181,490,200
Fixed Charges: times earned 1935	1.99
Subsidiary Preferred Stock and Minority Interest	$49,340,281
Parent Co. Preferred	120,139,600
Fixed Charges and Preferred divs. times earned 1935	1.27
Common Stock	11,721,978 shs.
Earned Per Share:	
12 mos. to Mar. 31, 1936	$0.54
12 mos. to Mar. 31, 1935	$0.28
Recent Quotation	20
Dividend last paid	0.20



Pipe line facilities of Columbia Gas & Electric System

bility of important consuming areas as a result of the steadily increasing scope of pipe-line facilities. It has only been within the last ten years that natural gas has been made available at distances more than 100 miles from the wells. The development of high pressure welded steel pipe has made it possible to transport natural gas 1,200 miles and it is thought possible that this distance may in time be increased to 1,600 miles. Today natural gas is being marketed in every important section of the United States except New England and the extreme Northwest.

In the first three months of this year aggregate sales of natural gas broke all previous records. Revenues likewise reached a new high level. According to the American Gas Association, sales were up 21.3 per cent and revenues gained 17.4 per cent over the first three months of 1935. Consumers of natural gas increased 3.3 per cent to more than 6,000,000.

The Columbia System is comprised of thirty-seven corporate units of which Columbia Gas & Electric Corp. owns all of the voting stock, with only a few comparatively minor exceptions. During 1935 four subsidiaries were eliminated by merger and since that time steps have been taken to dissolve five more. Operating units, supplying gas, electricity, water and heat, serve 1,356 communities having a population of some 5,000,000 people.

The company is most extensively represented in Ohio throughout a territory which embraces nearly all of the important industrial cities. Activities in this state are represented by three groups of operating properties centering in Cincinnati, Dayton and Columbus. Other operating groups serve the Pittsburgh district, southern New York State, West Virginia; and the Atlantic Seaboard Corp., in which the Standard Oil Co. (N. J.) has a 30 per cent stock interest, operates a transmission line from the natural gas fields in Kentucky and West Virginia, serving many smaller cities and Washington, D. C.

Highly Industrialized Market

This populous and highly industrialized area is the company's established territory and in itself is one which will undoubtedly provide an expanding demand for utility services as a normal consequence of better business, increasing population and wider use of appliances. But the opportunities which lie ahead for Columbia Gas & Electric are by no means limited to the scope of its present territory. Consider, for example, the possibility that the time is not far off when such cities as New York and Philadelphia and others along the Eastern Seaboard will use natural gas in large quantities both as such and for mixing with manufactured gas. This possibility was conceded as long ago as 1928 and 1929 and it was generally believed that the United Corp. acquired large blocks of Consolidated Edison, Public Service of New Jersey, United Gas Improvement and Columbia Gas & Electric in the interests of bringing it about. Unfortunately the intervention of the depression made it necessary to discard any plans of this nature which may have been in the making. Several recent events, however, have served to draw attention again to the possibility of extensive natural gas development in the East.

Recently the announcement was made that United Gas Improvement Co. is negotiating with the Columbia System for natural gas service to the towns of Bethlehem, Allentown, Reading, Lebanon and Harrisburg in Pennsylvania. At the present time these communities are served with manufactured gas by subsidiaries of U.G.I. It has also been reported that plans are under consideration to extend natural gas service to Wilmington, Del. Although no official announcement has been made, it is a fairly safe assumption that Philadelphia has also been considered as a logical addition to the natural gas fold. Pipe-lines of Columbia are laid to the outskirts of Philadelphia; likewise in New Jersey to within a comparatively short distance of New York City.

Another event which may hasten the acceptance of natural gas by other large cities is the forthcoming completion of facilities which will introduce natural gas into Detroit. In view of the important commercial advantages attributed to natural gas it would seem logical to expect that other cities of industrial prominence would seek to encourage new industries, as well as old ones, by providing a cheaper and more efficient fuel.

Anti-Trust Litigation Settled

The extension of pipe-line facilities to be used in transporting natural gas to the city of Detroit was preceded earlier this year by the settlement of the Government's anti-trust suit against the Columbia Gas & Electric Corp. The company signed a consent decree agreeing to divest itself of its interest in the Columbia Oil & Gasoline Corp. The latter company holds a 50 per cent stock interest in the Panhandle Eastern Pipe Line Co., the major operating unit of the Missouri-Kansas Pipe Line Co. The Columbia Oil & Gasoline Corp. will be reorganized as an independent concern and will be permitted to retain and enlarge its present holdings in Panhandle Eastern. Subsequent to the consent decree, Columbia Gas & Electric settled all claims made against it by the receivers of the Missouri-Kansas Pipe Line.

The Michigan Gas Transmission Co., a subsidiary of Columbia Gas & Electric, is engaged in the construction of a 300-mile pipe-line extending from the eastern terminus of Panhandle Eastern to Detroit. This is expected to be

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Profit Opportunities in Low-Priced Stocks

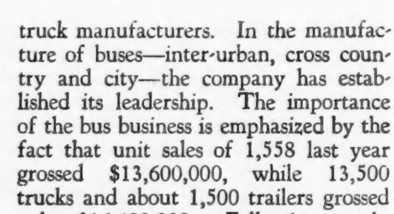
Four Favorably Situated Companies Analyzed

By Edwin A. Barnes

Yellow Truck & Coach Mfg. Co.

The immediate outlook for Yellow Truck & Coach is more promising than at any time during the past decade. Several very definite reasons may be cited in support of this contention. First, the potential sales volume of commercial trucks has been enlarged not only by the increased pace of replacement orders under the stimulus of better business conditions generally, but the versatility, efficiency, economy and speed of the modern truck are a vast improvement over the older models. Another favorable factor from the standpoint of Yellow Truck is the increasing abandonment of the old trolley car in favor of urban buses. Despite renewed efforts on the part of railroads to regain lost passenger traffic there has been no dimunition in the expansion of inter-urban and cross-country bus routes and operating companies are counting on the greater speed, comfort and safety of the newest type buses to hold their own against the railroads. And finally, even Yellow Truck's taxicab manufacturing division promises to contribute more substantially to the volume of current sales and profit.

Although control of Yellow Truck is vested with General Motors Corp., the company is operated as an independent manufacturer of light and heavy duty trucks, trolley buses, inter-urban buses and taxicabs. The General Motors association, however, is an important one for it provides Yellow Truck with the research and engineering facilities of General Motors, as well as the advantages of mass buying and interchangeable parts. Last year Yellow Truck accounted for less than 3 per cent of the total new truck registrations, although the company held fifth place among truck manufacturers. In the manufacture of buses—inter-urban, cross country and city—the company has established its leadership. The importance of the bus business is emphasized by the fact that unit sales of 1,558 last year grossed $13,600,000, while 13,500 trucks and about 1,500 trailers grossed only $16,400,000. Following costly credit losses in the sale of taxicabs, their



manufacture was abandoned in 1934 and only recently has the company reentered the field with a new light weight and low priced cab of which initial sales have been upwards of 3,500 units.

The period 1927-1935, inclusive, has been a lean one for the company and profits were shown in only three years. Last year was the first since 1930 when any earnings were shown; no dividends have been paid on the 150,000 shares of 7 per cent preferred stock since 1928; and none on the 1,300,000 shares of class B common since 1927. No dividends have ever been paid on the 800,000 common shares, all of which are owned by General Motors. Back dividends on the preferred stock amount to $59.50 a share, or a total of nearly $9,000,000.

Net income shown by the company last year amounting to $503,000 was equal to $3.35 a share on the preferred stock. By contrast the showing in the initial three months of the current year was exceptionally favorable. Sales gained about $4,200,000 over the same months a year ago to $10,926,150 and a net profit of $791,042 compared with a loss of $239,968 last year. Allowing for dividends on the preferred shares first quarter earnings this year were equal to 25 cents a share on the combined B and common shares. Despite the series of unprofitable years, the company has maintained a comfortable financial position with the ratio of current assets to current liabilities standing at about 4 to 1 at the end of last year.

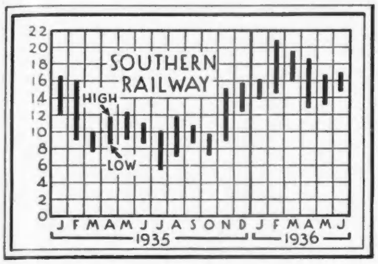
Augmented by the addition of a new light duty truck selling in the low priced field and with lower prices for its 1½-2 ton units the company is making a strong bid for this class of truck business and expects to sell some 35,000 units of all types this year. Moreover the company has orders on its books this year for trolley buses and cross-country buses from two sources alone aggregating nearly $8,000,000. This marked turn for the better in the company's prospects has been reflected in a rise in the value of the class B shares from a low this year of 8¾ to a high of 20¼. Granting that this is a fairly substantial advance and further that dividends are rather remote, the shares nevertheless may be conceded profitable speculative possibilities.

Southern Railway

In an estimate given to the I. C. C. earlier this year, it was predicted that Southern Railway would cover its fixed charges and dividends on the 5 per cent preferred stock. Based on the showing made in the first four months, it would

appear that, barring unforseen developments, the road has a good chance of fulfilling this prediction.

In the month of April gross revenues registered an increase of better than 13 per cent, bringing total gross for the first four months up to $30,101,608. This was an increase of $3,548,097 over the gross figure for the same months of 1935. Later results indicated an increase of about $1,000,000 in revenues



for May. Of the larger gross for the four-months period $1,312,565 was carried to net operating income bringing the total up to $5,203,066, as compared with $3,890,501 last year. The road would have been able to show a greater percentage of net operating income to gross had it not been obliged to hire considerable equipment. Not only have operating costs this year been increased by higher wages and expenses incurred in handling a larger volume of traffic, but earlier this year flood damage and severe weather placed an additional burden on earnings. Results in later months are likely, therefore, to afford more favorable comparisons.

Last year the Southern reported a net loss, after taxes and charges, of $1,523,193 as compared with a net loss of $2,795,243 in 1934. This year, however, the road will be favored not only by the larger movement of cotton and the increased textile activity in its territory, but greater activity in the building and steel industries presages a larger volume of coal and lumber traffic as well as miscellaneous traffic. Income will be additionally augmented by the increase in the Chicago, New Orleans, and Texas Pacific dividend from $8 to $10 and the payment of a $2.50 extra, and the recent dividend of $1.50 declared by Alabama Great Southern will add $138,166 to Southern's "other income."

The road has not fully earned its fixed charges since 1930 and that was the last year in which anything was available for either the preferred or common shares. In fact there have been occasions during the past five years when no little doubt was felt as to the ability of the road to remain solvent. However, aided by R F C loans, the carrier appears to have successfully weathered a most trying period, the like of which is unlikely to be experienced again for some time. Financial position has shown considerable improvement. On April 30, last, current assets of more than $24,000,000, including cash of nearly $7,000,000 compared with current liabilities of $16,937,675; R F C borrowings total $19,345,664; there are no bank loans; and there are no maturities prior to 1938.

With funded debt totaling about $288,000,000, while preferred stock amounts to $60,000,000 and common stock, $129,820,000, the road has an unbalanced capitalization. The effect is to place a very heavy burden of interest charges on the road in a period of restricted revenues, while, on the other hand, per-share earnings would show a very rapid increase in a period of rising traffic, once fixed charges are covered. In 1930, for example, fixed charges were covered only 1.5 times, but the common earned $4.97 a share. The presence of this potent leverage factor imparts considerable speculative interest to the common stock in the present circumstances, and at 16, the shares might well prove a profitable speculation. Incidentally, the preferred shares are noncumulative, thus relieving the road of the obligation of paying back dividends.

Marshall Field & Co.

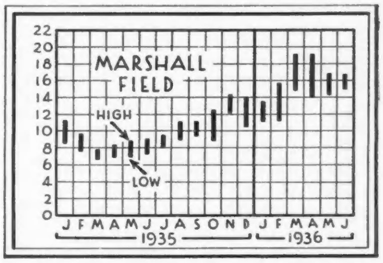
Marshall Field is at the present time undergoing a thorough overhauling under the direction of George O. McKinsey, the results of which should ultimately restore the company's earning power to a point more in keeping with the size and prestige of the enterprise than has been true of the somewhat indifferent showing in recent years.

The first step in this reorganization, as well as the one which has most promptly borne fruit was the elimination of the jobbing division. This division normally accounted for more than one-third of the total sales volume, but also accounted for the largest portion of the losses during the past five years. The company is now entirely out of the jobbing business and stocks were liquidated with little or no loss. Further, several small manufacturing plants have been eliminated and at the present time the company is liquidating eighteen small dry goods stores. When present plans are completed, the organization of Marshall Field will comprise the large retail store in Chicago, which has consistently shown a profit, three branches of this unit located in populous communities adjacent to Chicago, the Davis store in Chicago, and the Frederick & Nelson unit in Seattle. The manufacturing division of Marshall Field will consist of about 29 plants, all of which are strategically located and in a position to contribute a profitable share to ultimate income.

The company also owns the Merchandise Mart in Chicago, a $30,000,000 building, against which $14,000,000 in first mortgage bonds and $7,900,000 4½% debentures have been issued. The unoccupied space in this building has been gradually reduced but as yet rentals are not sufficient to cover operating costs and interest charges. Over the next several years, however, this property should prove a less burdensome drag on the earnings of Marshall Field.

With the exception of 1933, when a modest profit was shown, the company has shown deficits in each year since 1930. Profitable operations were restored last year but despite an increase of $8,200,000 in sales to $110,810,658, net income after all charges and depreciation amounted to only $199,176. Contrast this with the company's retail department which normally averages 8% net on gross sales. Fortunately, however, the conditions responsible for this showing are being, or will be, removed. It is not to be expected, of course, that immediate and sensational results will be shown but definite progress is likely to be cumulative from this point on.

No dividends have been paid on the 296,000 7% preferred stock since 1932 and accumulated arrears now total more than $8,000,000. However, once the company can show convincing evidence of improvement, preferred shareholders, of which there are comparatively few, can doubtless be induced to accept some plan of recapitalization including the issuance of additional common stock in



lieu of back dividends. The common stock is obviously a speculation on the success of the revamping program now under way. As such, however, it represents an equity in an old and established enterprise with a long record of successful operations to its credit prior to the depression and which now may only have to liquidate its unsuccessful ventures of more recent years to regain its former profitable status. Recent quotation for the common stock, 15.

(Continued on page 384)

For Profit and Income

Lehman Corp.

The declaration of a special dividend of $1 in addition to the regular distribution of 75 cents on the part of the Lehman Corp. serves to emphasize more than ever the difference between the market price and liquidating value of this investment trust and also, of course, most of the others in the same field. Lehman's most recent report, that of April 3, 1936, showed a liquidating value after all deduction of more than $120 a share. As a whole the market today is slightly lower than it was then, but it is to be doubted whether Lehman's present liquidating value is more than a dollar or so at the most under what it was then. Yet, the stock can be bought in the neighborhood of $100 a share. This seems a ridiculously large discount in the case of a company as strong as Lehman, even admitting that the American public has not fully recovered from its unhappy experience with investment trusts during the boom-time period.

* * *

What Is Retarding These Companies?

Whatever its origins, whether artificial or natural, one cannot deny the gains made by business generally over the past three or four years. This naturally has been reflected in the security markets and the price of the majority of common stocks is now much higher than it was in, say, 1933. There are, however, many laggards, and the owners of these stocks are often at a loss to know why this should be so; an attempt is made here to set forth reasons in five or six cases.

Beneficial Industrial Loan is one of those concerns with a long record of profitable operations, but which for some reason or another constantly sells at a lower than average price in relation to its earnings and apparently no attempt is ever made to discount the future. Possibly the business, which is that of a holding company making loans of less than $300, is not attractive to the average investor—although with never a dividend missed since formation in 1929 this has not prevented the company being in actuality a much better investment than a number of others with considerably greater appeal.

Price-cutting and the fiercest of competition with other anti-freezes, which in a number of ways are more suited to the job in hand, were the principal factors leading to ***U. S. Industrial Alcohol*** halving its dividend a month ago. Much uncertainty still surrounds the company, for indications are not lacking that it must look in the future more to its other lines than to industrial alcohol and this means the expense of further development and expansion.

Any company with more than 31,000,000 shares outstanding is handicapped at the very start in the matter of wild gyrations on the Stock Exchange; it takes huge buying power to put it up and huge selling orders to put it down. In recent years, moreover, ***Socony-Vacuum*** has suffered from the relative over-capacity in the refining side of the business, for under such circumstances profits largely depend upon a favorable spread between the price of crude oil and the price of refined products. This condition, however, is in process of correction and the company has been greatly enlarging its producing interests. At the present time it is feared that there may be a breakdown of the price structure in the oil industry. Such a development conceivably could be favorable to Socony-Vacuum in the long run, as enabling it to round out its acquisition of producing properties.

The so-called general recovery in business of the past few years has not meant a great deal to the baking industry. It was hit by N R A, A A A and many individual companies have had operations and profits curtailed by labor troubles. Last winter ***Purity Bakeries*** suffered a costly strike in its Cushman division and a net loss was reported for the 16 weeks to April 16. While this has long been settled and the company undoubtedly will report black figures for the second quarter, the reduction in the dividend last May served to emphasize the obstacles surmounted and call attention to those that still lie ahead.

A dip into new low ground at $14 a share on the announcement that the quarterly dividend had been cut from 30 cents a share to 15 cents was the concrete evidence presented last week that ***Gold Dust*** had at last succumbed to the difficulties with which the company has long been contending. The company reports only once a year and the results for the twelve months ending June 30, last, are not as yet available, although it is believed that earnings will be even lower than the 97 cents a share reported for the previous fiscal year. Gold Dust has been put to heavy development and promotional expense in attempting to offset keen competition.

Procter & Gamble at $43 a share is no higher than it was in 1933. This would indicate that the company had not been a participant in the general business recovery. This, however, is not so; the company's earnings have moved forward and for the fiscal year which ended June 30, last, it may well report the highest earnings in five years. For the previous fiscal year the company showed a net income equivalent,

Coming Dividend Meetings

Company	Approx. Date	Probable Action (On the common
Bendix Aviation	July 8	Regular 25 cents.
Best & Co	July 14	Regular 50 cents.
Cerro de Pasco	July 7	Usual $1.
Continental Can	July 8	Regular 75 cents.
General Foods	July 14	More than the regular 45 cents.
Kroger Grocery & Bak.	July 3	Regular 40 cents.
Libbey-Owens-Ford	July 13	More than the regular 50 cents.
Louisville & Nashville	July 16	More than the $2 declared 6 mos. ago.
Nash Motors	July 9	Regular 25 cents.
National Power & Lt.	July 16	Regular 15 cents.
National Steel	July 10	More than regular 37½ cents.
Owens-Illinois-Glass	July 13	Regular $1.25.
Phillips Petroleum	July 13	More than regular 25 cents.
Pullman, Inc	July 15	Regular 37½ cents.
Woolworth, F. W.	July 8	Regular 60 cents.

after all charges and deductions, to $2.23 a share on the common. A plausible explanation of the stock's lethargic action is that the company, being in the consumers' goods class, has not at the present stage of the business cycle the same appeal as those in the "heavy" side of industry. Procter & Gamble, moreover, is noted for its advanced ideas on the relationship between employer and employee; there are various profit-sharing plans on which extras are distributed from time to time, pension funds, benefit funds, plans to spread the work throughout the year and so forth. This is not to say, of course, that the stockholder is being neglected in favor of pampered employees, although there is every reason to believe that the stockholder will have to share fully with those who actually produce the profit—something which is obviously right and just even though it does not make for fireworks marketwise.

* * *

Brevities

Arthur Krock of the New York Times reports that the Republican platform originally pledged the convertibility of the currency into gold at a fixed rate and the repudiation of a "fantastic" silver policy. Even if this is not good news, it will at least be interesting to holders of stock in companies producing precious metals. . . . With power output mounting towards new all-time records, the utilities have at last begun to buy heavy equipment—good news for ***General Electric*** and ***Westinghouse***. Incidentally, the latter has upped its dividend from $3 to $4. . . . "At the end of this month (June) we will be able to report that we have made money in twelve successive months"—McDonald, president, ***Zenith Radio***. . . Along similar lines was the fact that May marked the sixteenth consecutive month showing gains in cigarette production. Estimates put the earnings of ***Philip Morris*** higher than ever. . . . ***Atlas*** and ***Hercules*** have cut the price of dynamite. The former will feel the effect most although, with volume on the uptrend and further stimulated by the price reduction, there seems to be no reason for stockholder alarm. . . . Demand in the heavy division is bolstering steel operations. Railroad buying of equipment is becoming an increasingly important factor.

* * *

Investments Revealed

For years now the balance sheet of the ***Corn Products Refining Co.*** has carried a big item labelled "investments." The stockholders, however, never knew exactly what they were. Rumor held them to be largely railroad securities and this time rumor proves to have been well founded. The S E C has just made public the company's principal holdings as of December 31, 1934. (This publication has never been able to understand why this was not done before; why, when it is done, there are still details lacking; and why, having gone this far, the information has to be eighteen months old.) Well, it seems that at the end of 1934 Corn Products' principal common stock holdings were in Atchison, Canadian Pacific, Northern Pacific, Southern Railway, Southern Pacific, Union Pacific and, finally, about a quarter of a million shares of stock in Allied Mills, part of which is to be distributed to the company's own stockholders in the ratio of one twenty-fifth of a share of Allied Mills for each share of Corn Products. Corn Products' business has been much improved this year, thereby allaying all fears as to the safety of the regular $3 dividend which, at one time, was not being earned.

* * *

Railroad Pension Law

Unless the decision of the U. S. District Court for the District of Columbia should be reversed by the United States Supreme Court, Class I railroads will save more than $4,000,000 a month by the invalidation of the Railroad Retirement Act. This coming on top of the recent extension of the emergency freight rates for the balance of the year has greatly improved the outlook for railroad earnings. Moreover, the roads had already put aside some $15,000,000 in anticipation of having to make a payment June 30 and the question arises as to what will be done with this—when and how it will be brought into the income account. There are offsetting factors to this predominantly favorable development; some roads will reinstate their own pension system which they had abandoned in favor of the Government's and it seems that the invalidation of the law which was made to apply to railroads particularly will throw them automatically under Social Security next year. By and large, however, the invalidation of the Railroad Pension Law is good news for the long-suffering holders of railroad common stocks and junior bonds.

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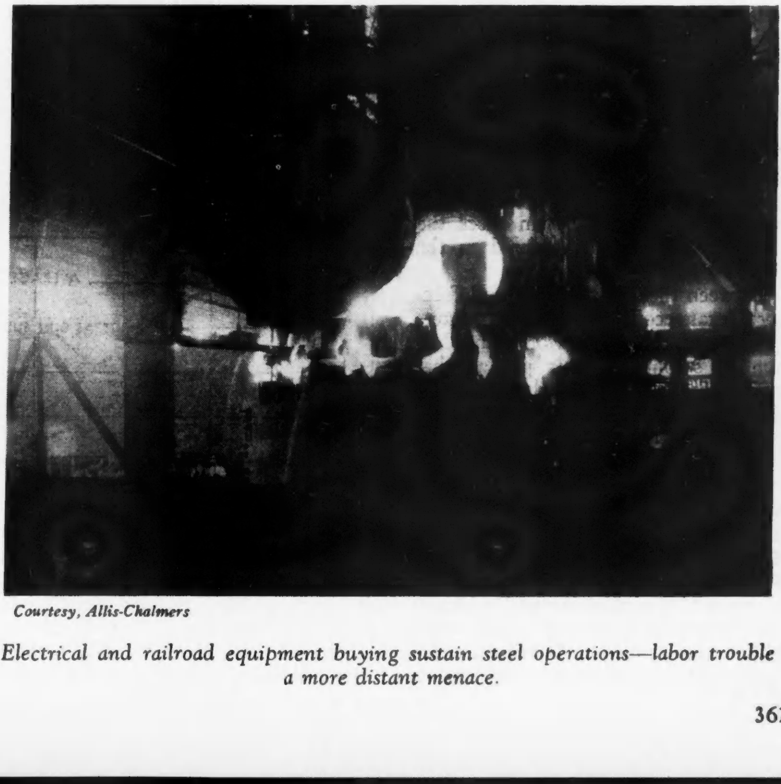
Beatrice Creamery Does Better

Reporting for the quarter ended May 31, 1936, ***Beatrice Creamery*** showed a net profit of $90,644 after interest, depreciation, taxes and other charges. This is equivalent to 90 cents a share on each of the 100,000 shares of 7% preferred stock outstanding. For the twelve months to the end of May, earnings were equivalent to $1.19 a share on the common, after deducting dividend requirements on the preferred for the period. The company's business has picked up recently.



Courtesy, Allis-Chalmers

Electrical and railroad equipment buying sustain steel operations—labor trouble a more distant menace.

Increasing Demand Brightens Outlook

By George L. Merton

A VIRTUAL monopoly in the production of an essential raw material is the unusually firm foundation on which rests the business of the Texas Gulf Sulphur Co. and that of the Freeport Texas Co. It is, however, a monopoly that depends upon price. There is plenty of sulphur in the world, but rarely does it occur in the free state such as in the native deposits of Louisiana and Texas where the companies operate. More commonly it is found in the familiar "fools' gold," or pyrites, which are copper or iron-bearing ores containing up to 40 per cent sulphur.

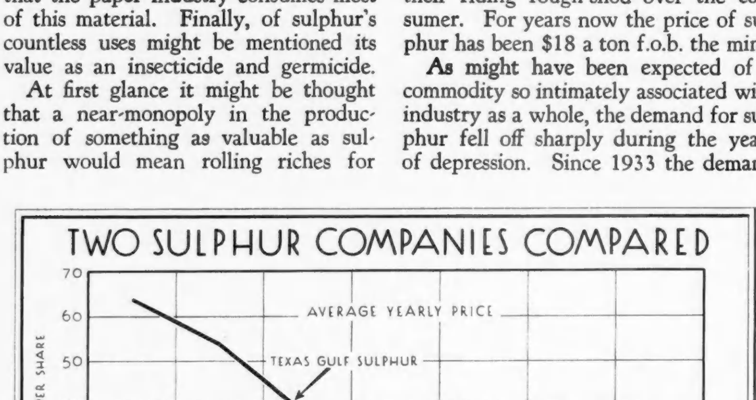
Both Freeport Texas and Texas Gulf employ the Frasch process of extraction. This entails the sinking of several concentric pipes, through which air and super-heated water are forced, bringing the sulphur in a molten state to the surface. Prior to the introduction of this process for working deep underground deposits of native sulphur, pyrites was the principal source of supply. Even today the huge mountains of sulphur-bearing pyrites ore holds in check the price of sulphur as recovered in the South.

Between them, Texas Gulf and Freeport Texas account for more than three-quarters of the entire world's production of sulphur. Their product has many uses, so many indeed that there is hardly an article in common use that it has not touched at one stage or another. Sulphur's most important outlet, however, is the manufacture of sulphuric acid and this takes about 70 per cent of the production. Sulphuric acid is the most basic of all chemicals; to the extent that it is consumed it is an excellent measure of a civilization and a barometer of business activity. More sulphuric acid is used in the fertilizer industry than any other, but the chemical, oil, paper, steel, paint and explosive industries also consume huge quantities.

Apart from its conversion to acid, sulphur itself has many uses. Mixed with rubber, it removes the "stickiness" of the natural product—vulcanizes it. The rubber tread of an automobile tire, for example, is between 1 per cent and 3 per cent sulphur, the hard rubber of a storage battery may contain as much as 50 per cent sulphur. Paper can be impregnated with molten sulphur to produce a material much stronger and denser than it was previously, although it is in the form of sulphur compounds that the paper industry consumes most of this material. Finally, of sulphur's countless uses might be mentioned its value as an insecticide and germicide.

At first glance it might be thought that a near-monopoly in the production of something as valuable as sulphur would mean rolling riches for those in such a position. Yet, while the two sulphur companies are reasonably prosperous, their monopoly is no dictatorship, because, as has been said, they have a monopoly only so long as they keep selling prices at competitive levels. If they raised prices without regard to this factor they would quickly find that manufacturers of sulphuric acid were turning to pyrites and that they were threatened with the loss of their most important outlet. Thus, while the business of the two big American sulphur companies has monopolistic characteristics, it is not a monopoly which permits their riding rough-shod over the consumer. For years now the price of sulphur has been $18 a ton f.o.b. the mine.

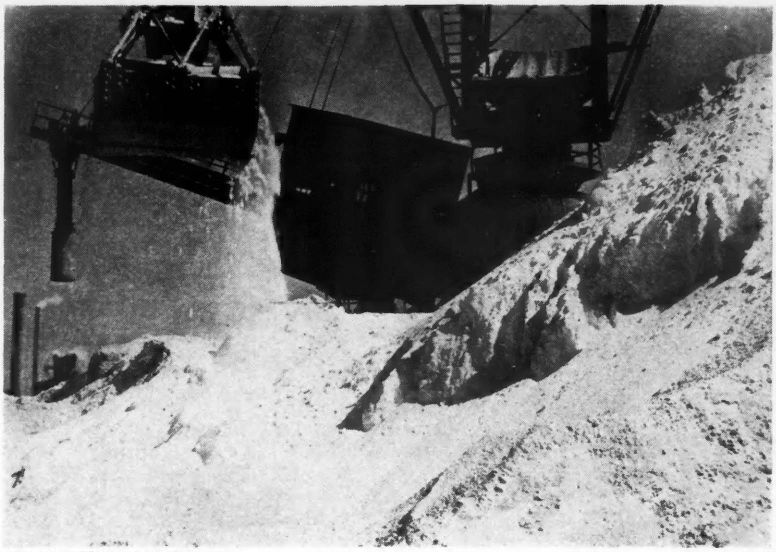
As might have been expected of a commodity so intimately associated with industry as a whole, the demand for sulphur fell off sharply during the years of depression. Since 1933 the demand



has improved with the general business betterment. The export side of the business, which is more than usually important in this industry, has been affected similarly. Nevertheless, despite the improvement of late years, a number of causes have contributed to make the earnings gains on part of the sulphur companies somewhat disappointing. This applies particularly to the smaller of the two companies, Freeport Texas.

Among the difficulties with which the sulphur companies have had to contend are the usual ones of higher costs and taxes, including higher taxes on each ton of sulphur mined, imposed by the states in which operations are carried on. In addition, however, there have been difficulties peculiar to the industry itself. The worst of having a near-monopoly is that, when demand declines, the whole decline almost invariably has to be stood by the "big seller." This has been true of nickel and the output of the International Nickel Co. of Canada was more severely curtailed during the depression than that of the smaller units in the field. Likewise it has been true of sulphur. For example, two comparatively small organizations, Duval Texas Sulphur and Jefferson Lake Oil, obtained a larger percentage of a contracted total business, particularly towards the end of 1933 and during 1934 when the latter's output jumped enormously. Now, however, these two companies are a much less important factor in the lives of Texas Gulf and Freeport Texas, both because the demand for sulphur has increased and because certain of their workings have become exhausted.

This matter of exhaustion serves to introduce the peculiar formations in which the sulphur is found. In Texas and Louisiana sulphur is found in salt domes, one-eighth to two miles in diameter, where it penetrates the fissures of the rock cap covering them. There is naturally only so much sulphur in a dome and when it has been extracted operations must be transferred elsewhere. Two years or so ago the wholly owned properties of Texas Gulf were nearing exhaustion and the company's future seemed to lie in what it could make out of an arrangement to exploit properties owned by a subsidiary of the Gulf Oil Co. This picture, however, was changed when the sulphur company acquired full ownership of the properties in exchange for 1,300,000 shares of common stock, or about a third of all the stock now outstanding. The advantages to Texas Gulf were many; the profit-sharing arrangement with Gulf Oil was eliminated and with it a possible source of trouble in deciding what actually constituted "profit," certain royalties were saved, bookkeeping was simplified and, finally, Texas Gulf's own reserves became such as to renew its life indefinitely.



Bartlett Photo, from Nesmith

Handling sulphur in bulk

The problem of exhaustion also has confronted the Freeport Texas Co. Indeed, operations at its original property, Bryanmound, were discontinued permanently last September and there remains there only a small stock of sulphur above ground which will be shipped in the usual course of business. This condition, however, had long been anticipated and more than ten years ago the company started to operate the Hoskins Mound in Texas, under an agreement with the Texas Corp. which owns it. Then in 1932 an arrangement was made with several oil companies to open up a new sulphur deposit at Grande Ecaille, about fifty miles south of New Orleans. A $2,500,000 issue of 6 per cent preferred stock was sold to provide funds for developing this property.

Unfortunately, there were immediate production difficulties at Grande Ecaille. As is not unusual with new sulphur deposits, there was considerable seepage of the superheated water used in the Frasch process, which not only prevented full recovery but greatly raised costs. This, however, is a difficulty being overcome and, provided there should be no unusual relapse, from this point output should trend upwards and costs down.

Told in figures, the recent history of the sulphur companies shows that the net before depletion of Texas Gulf declined from a peak of $16,200,000 in 1929 to a low of $7,400,000 in 1933. In the following year there was a further decline in net income to slightly less than $7,000,000, but in this year a charge was made for depletion so that prior periods are not strictly comparable. For last year net after all charges *and* depletion was back to the 1933 mark when depletion was omitted. The actual figure for 1935 was $7,468,017, equivalent to $1.94 a share on each of the 3,840,000 shares of no par stock outstanding. While this does not compare well even with the $2.33 shown for 1932, one must not forget the greatly increased number of shares which are now outstanding.

Texas Gulf Sulphur's earnings so far this year have been better than last. For the first three months the equivalent of 56 cents a share was reported, compared with 40 cents for the corresponding period of 1935. Export business was particularly good, stimulated by Italy's African campaign, or rather stimulated by the sanctions which prevented Italy from making normal shipments of sulphur. From all indications net income this year will leave a substantial margin over the company's regular $2 dividend.

As was the case with its larger contemporary, 1932 did not represent from the standpoint of net income the depth of depression to Freeport Texas, for per share results were $2.75 while last year only $1.78 a share was shown for the common. However, as has been said, this was because of the higher operating costs of the company's new workings—something which appears to be in process of correction. For the first three months of this year, Freeport Texas reported earnings equivalent

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Stocks With Earnings Plus

Investment Opportunities for Income and Price Appreciation

SELECTED BY THE MAGAZINE OF WALL STREET STAFF

Coca-Cola Co.

This year is the fiftieth anniversary of Coca-Cola Co. and far from showing any signs of senility, the company is a most vigorous enterprise. Earnings last year were the highest in the company's history and current indications favor a similar achievement this year. In itself this is a proud accomplishment, but becomes somewhat in the nature of a phenomenon when it is recalled that the approach of Repeal several years ago cast considerable doubt on the ability of Coca-Cola to withstand the onslaught of this new competition. Apparently, however, Coca-Cola is a more popular beverage than ever.

Earnings Per Share 1st 3 mos. 1935	1st 3 mos. 1936	Recent Price	Div.	Yield
$0.66	$0.52	$100	$2.00	2.0%

In 1934, the first full year of legalized liquor, the company reported earnings equal to $12.31 a share on the outstanding stock, as compared with $11.82 a share earned in 1931, the previous high level of profits. Again last year, profits recorded a gain, and giving effect to the 4-for-1 split in the common stock last November, earnings were equal to $3.49 a share.

Although the company's record approaches the sensational, it has been the result almost solely of conventional factors. First of all, its product is indisputably the most popular soft drink in the United States. Moreover it is currently being sold in 76 foreign countries. Its cost to the consumer is very modest and even at the depths of the depression, sales were restricted only moderately. The company is comparatively free of trying inventory and manufacturing problems, labor costs are small and its capitalization is conservative. Year in and year out the company pursues an effective advertising campaign, expending some $5,000,000 annually for this purpose and utilizing practically every available medium.

In addition to the manufacture and sale of Coca-Cola, the company through subsidiaries engages in manufacturing and bottling operations in foreign countries, and the production of carbonic gas. These activities have contributed materially to earnings in recent years. Recently the company has been reacquiring parent bottling concerns and now controls entirely all but three of these.

The 4,000,000 shares of common stock now outstanding are preceded by 600,000 shares of class A stock, paying $3 a share annually in dividends and callable at $52.50. At the end of last year, the company owned 8,100 shares of common. Following the split-up the common stock was placed on a $2 annual dividend basis but the probabilities are that extra dividends will be paid from time to time. Such expectation would appear to be well supported by the company's strong financial position and the favorable trend of current earnings.

In the first quarter of this year, net profit was equal to 66 cents a share on the common stock, comparing with 52 cents a share earned in the same period of 1935 and the gain through the summer months may be even more pronounced, as this is the company's heaviest selling period. At the end of last year cash and government securities of $10,589,809 compared with current liabilities of $5,016,986, while total current assets amounted to $23,422,543.

Selling at 100 to yield only 2%, the shares of Coca-Cola are obviously not undervalued and the market recognizes not only the company's long record of profitable operations but the favorable prospects for a further gradual rise in both earnings and dividends. The fact that the company's prosperity has been built upon the success of a single product is a weakness which is more apparent than real and the shares in every respect are worthy of inclusion in a representative investment list of common stocks.

Caterpillar Tractor Co.

In its field Caterpillar Tractor holds a commanding position. The company is the leading manufacturer of track-type tractors, for which it holds a number of basic patents. In addition the company manufactures Diesel and gasoline engines and a full line of road grading and maintenance machinery.

Earnings Per Share 1st 5 mos. 1935	1st 5 mos. 1936	Recent Price	Div.	Yield
$1.28	$1.95	$78	$2.00	2.6%

Caterpillar has played a leading role in the development of Diesel power and currently the company is offering five sizes of tractors using either gasoline or Diesel power. Demand is supplied by both industrial and agricultural sources, with the latter becoming of increasing importance with the improvement in farm purchasing power. Such other industries as logging, oil, utility, mining and railroads are also supplied. Moreover, sales efforts have been successfully employed to encourage manufacturers of non-competing machinery to recommend Caterpillar power units. Operations are international in scope.

The financial record of the company has been fully in keeping with its industrial prestige. Not only have earnings been substantial under favorable

conditions but they have also shown stubborn resistance to depression influences. During the past decade there have been only two years in which deficits were shown and in every year of the past ten stockholders have received a dividend. In no small measure, this record has been made possible by the company's conservative capital structure. With the retirement of the balance of a $10,000,000-issue of notes in 1934, the entire equity became vested in 1,882,240 shares of capital stock. Another item of value to the investor, and one which must have gained the company considerable good will from its stockholders, is the policy of issuing monthly earnings reports.

Improved industrial conditions generally and greatly augmented farm purchasing power have been clearly reflected in the trend of Caterpillar's earnings during the past two years. In 1934, net income was equal to $1.94 a share for the outstanding stock and last year profits rose to a level of $3.16 a share. In the current year there has been but slight diminution in the rate of earnings gain. Net sales for the first five months totaled $22,864,178 as compared with $15,481,775 in the same period a year ago. Profits this year of $3,673,469 were equal to $1.95 a share, contrasting with $2,404,284 or $1.28 a share in the first five months of 1935. Sales were up 47% this year and earnings gained 52%. On the basis of this showing, the possibility that the company may earn in the neighborhood of $5 a share this year becomes a live one. Farm income is running substantially ahead of a year ago, while heavy highway improvement operations coupled with government orders are all contributing to brighten the company's current prospect.

With ample likelihood that earnings will show a margin of better than 100% coverage for the $2 dividend, it is a fairly safe assumption that the regular dividend will be augmented by extras later in the year. Although a fairly sizable proportion of current assets is in the form of receivables, the company's financial position is comfortable to a point which would enable the company to at least maintain the same ratio of dividends to earnings as last year. Total dividends were better than 60% of net income in 1935. At 78, the shares are reasonably valued in relation to prospective earnings and from every angle should prove a desirable common stock commitment.

Air Reduction Co.

There is a strong possibility that Air Reduction this year will equal or exceed the record high level of earnings attained in 1929. Profits last year were the best since 1929 and earnings in the first quarter of the current year were nearly 15% higher than in the same period of 1935. Moreover, present

Earnings Per Share 1st 3 mos. 1935	Earnings Per Share 1st 3 mos. 1936	Recent Price	Div.	Yield
$0.50	$0.56	$69	$1.00*	1.5%

* Plus Extras.

indications are that the percentage of gain in subsequent months may be even more pronounced.

The company's chief source of income is from the manufacture and sale of oxy-acetylene gases utilized in the cutting and welding of various metals. This phase of the company's business contributes about 75% of operating revenues, while the balance is contributed by the sale of welding equipment, etc. A wholly-owned subsidiary, Pure Carbonic Co., is a leading manufacturer of dry ice and Air Reduction owns a 20% stock interest in United States Industrial Alcohol, the latter being under the same management as Air Reduction.

The nature of the company's business is such that the principal demand for its products emanates from the steel and railroad industries. Despite this association with two basic industries upon which the depression fell with unmitigated force, earning power of Air Reduction was well sustained throughout this lean industrial period. In this respect, it was aided by the greatly increased use of welding processes which have been developed in recent years. As a result, the company is now within striking distance of a new record in earnings, notwithstanding the fact that both the steel and railroad industries still have some distance to go. Currently, however, the company should experience the favorable effects of a higher level of activity on the part of steel manufacturers and the manifest willingness of railroads to undertake larger maintenance and equipment programs.

Another factor which has aided the company is the absence of any inventory problems. The principal raw material used is air—which costs nothing—and while such materials as limestone, coke, and anthracite coal are also used, fluctuating prices have very little effect on earnings from year to year.

Last year Air Reduction's sales volume totaled $20,865,439, less than $1,000,000 under the 1929 high and more than $9,000,000 above the 1932 low. Giving effect to the three-for-one split in the capital stock in April of this year, outstanding shares now total 2,522,463. On the basis of the present capitalization, earnings last year were equal to $2.10 a share, while in the first quarter this year net was equal to 56 cents a share against 50 cents a share in the same months a year ago. Estimates have placed second quarter earnings in the neighborhood of 70 cents a share. This forecast appears to be well supported by the recent action of directors in declaring a regular quarterly dividend of 25 cents, plus an extra of 50 cents. On the basis of improving prospects, the chances are that stockholders will receive at least $2 a share in dividends this year. This would be equivalent to $6 on the old stock, which paid $5.50 in dividends last year. A liberal dividend policy is well justified by the company's excellent financial position.

Recently the shares have sold close to their 1936 high, around 69, and the high premium which the market accords the company's earnings and prospects is typical of the shares of leading companies identified with the chemical industry, in recognition of its dynamic character. The chemical industry is both an old and a new industry with the established earning power and industrial prestige of the former and the unlimited possibilities for future growth characteristic of the latter. Constant research resulting in the development of new products and new processes assure the industry an ever-widening field.

Stocks With Established Earnings Plus Good Prospects

Company	Recent Price	Dividend	Yield
Coca-Cola	100	2.00	2.0
General Motors	68	2.00	3.0
Amer. Smelting Ref. & Mining	82	2.00	2.4
Caterpillar Tractor	78	2.00	2.6
Air Reduction	69	1.00*	1.5
United Carbon	82	2.40	2.9
Mesta Machine	50	3.00	6.0
Westinghouse Electric	119	4.00	3.4
Union Carbide	92	2.40	2.6
Detroit Edison	142	4.00*	2.7
Crown Cork & Seal	62	1.00*	1.6
National Lead	29	0.50	1.7
International Nickel	52	1.20	2.3
Timken Roller Bearing	61	2.00*	3.3
U. S. Gypsum	96	2.00	2.1

* Plus extras.

All in all the stock of Air Reduction has much to recommend it to the investor with an eye to the future.

Mesta Machine Co.

Mesta Machine Co. is one of two leading companies manufacturing heavy industrial plant machinery, a type of business which is distinctly of the "prince and pauper" class. Nevertheless, the company by virtue of a modest capitalization, capable management and conservative financial policies, has been able to maintain an uninterrupted dividend record since 1914.

Earnings Per Share 1934	Earnings Per Share 1935	Recent Price	Div.	Yield
$1.46	$3.11	$50	$3.00	6.0%

Products manufactured by Mesta Machine include heavy steel mill machinery and castings, steel and alloy steel rolling machinery, forging presses, shears and various types of gears and pinions. Other products are gas and steam engines, iron, steel, and alloy steel castings, forgings and forging ingots. The company's business is almost entirely domestic and it numbers among its customers practically all of the leading steel producers in the United States. Substantially dependent upon the heavier industries, and the steel industry more specifically, this condition lends further stature to the company's impressive record.

As measured by total income the company's volume of business dropped from the peak level of $3,299,296 in 1930 to $595,290 in 1932. But even with moderately higher depreciation charges in the latter year, net income totaled $327,871, equal to 41 cents a share on 600,000 shares of common stock. Based on the same amount of stock, profits in 1930 were equal to $4.02 a share. Although profits in 1932 were but a scant 10% of the peak earnings, the company's strong financial position permitted dividends amounting to $1.50 a share in that year.

Earning rose in 1933 to 93 cents a share and in 1934 the company retired all of its preferred stock and a 66 2/3% stock dividend was paid to common stockholders. Giving effect to this stock dividend, outstanding stock was increased to 1,000,000 shares, which currently comprises the company's entire capitalization. On the increased number of shares, earnings in 1934 were equal to $1.46 a share.

Last year witnessed considerable new construction and modernization in the steel industry, with the result that Mesta Machine reported record-breaking profits. Net profit of $3,114,527 was equivalent to $3.11 a share on the outstanding stock, including 12,021 shares held in the company's treasury. Current assets at the close of 1935 totaled $8,500,484, including cash of $3,034,698, while current liabilities were $4,425,383.

Orders on the company's books at the beginning of the year exceeded $8,000,000, an increase of 248% over those on hand at the start of 1935. Since then the company was awarded the contract for the machinery in the new $25,000,000 sheet and strip mill being constructed by Jones & Laughlin. Dividends have been progressively increased and recently the quarterly rate was advanced to 75 cents. With current prospects favoring earnings of upwards of $4 a share, the fact that the stock is not currently selling higher than $50 may be accounted for by some doubt as to the length of time the company will be successful in maintaining the recent level of earnings in view of the possibility that steel capacity has been built up to a point sufficient to meet immediate requirements. On the other hand the 6% yield would appear to compensate for any reasonable doubt that may be admitted at this point, while the possibility that the company's business in other lines may register broader gains coupled with its excellent past record provide a better-than-average speculative basis.

Detroit Edison Co.

Unquestionably Detroit Edison is qualified to rank among the leading and more successful utility properties in the country. The company's record of earnings, both during the depression and in the recovery period, its conservative capital structure, important territory and successful management all combine to impart a considerable measure of investment quality to its shares.

The company is predominantly an electric power unit and electricity sales account for all but about 6% of revenues. In addition to serving Detroit, the industrial capital of the automobile industry, the company also serves a surrounding territory, densely populated and embracing such important communities as Ann Arbor, Royal Oak, Dearborn, River Rouge, Port Huron and others. In all the company serves a population of about 2,300,000. The automobile industry, of course, provides the most important industrial outlet, but the company also does a large commercial business with other lines and has been notably successful in promoting wider domestic use. Service rates are comparatively low; the company is engaged in no serious rate litigation; and is apparently outside the jurisdiction of the Public Utility Act of 1935. In Detroit a municipal power plant is operated but this unit confines its distribution to city facilities such as railway service and street lighting and does not compete with Detroit Edison.

Capital structure of the company is well balanced as indicated by total funded debt of $134,000,000 and capital stock of $127,226,000, or 1,272,260 shares. Fixed charges are regularly covered by a wide margin of safety and the company enjoys a high credit standing. Last year a $49,000,000 refunding operation resulted in a savings of $490,000 annually in interest charges. Financial position is strong. Current assets, of which more than half consisted of cash items, were more than double current liabilities at the end of 1935.

Earnings Per Share 12 mos. to May 31 1935	Earnings Per Share 12 mos. to May 31 1936	Recent Price	Div.	Yield
$4.22	$8.40	$142	$4.00*	2.7%

* Plus Extras.

The company's earnings record in recent years has largely reflected the changing tides in the fortunes of the automobile industry. Earnings reached a peak of $11.16 a share in 1929 and even at the end of 1931 were still running close to $9 a share. In 1932, however, they dropped to $5.21, followed by $4.83 a share in 1933. In the following year, earnings recovered to $5.42, but extraordinary depreciation charges reduced this figure to $4.28. Last year, responding to the vigorous recovery of the automobile industry, earnings were more impressive and net income was equal to $7.61 a share on the stock. Further gains have been recorded this year, net for the 12 months to May 31 having been equal to $8.40 a share as compared with $4.22 a share in the same period of 1935.

Prior to 1932 the company had paid $8 a share in dividends but in recent years the rate has been continued at $4 annually. This year, however, two extra dividends of $1 each have been paid, the directors preferring to proceed conservatively in the matter of regular dividends pending further clarification of the outlook. With the possibility that the company may show around $10 a share for the stock this year, the prospect for further extra dividends is good. Including extras,

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The Business Analyst

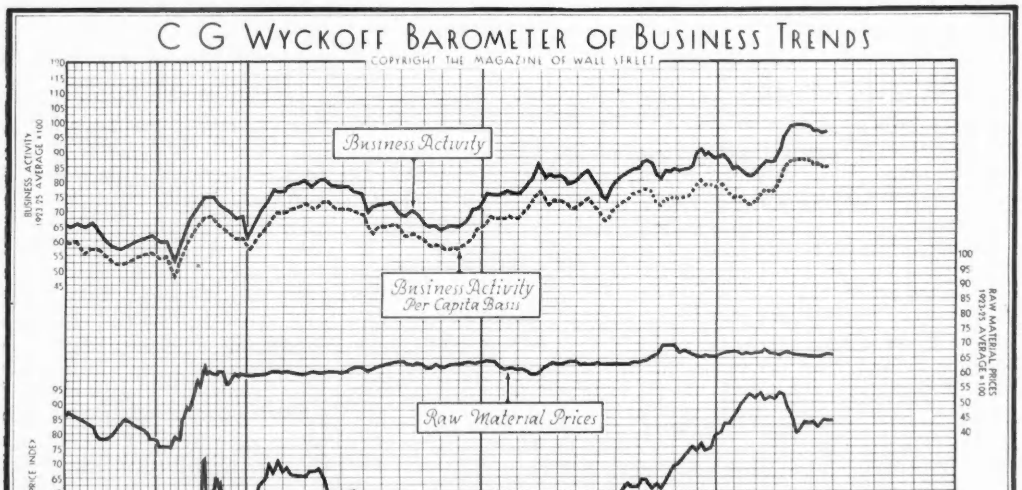
— Business Recedes Slightly
— Good Second Quarter Profits
— New Capital Issues Lag
— Raw Materials Rally
— Oil Prospect Improved

WHILE electric power output, steel production and lumber shipments have expanded contra-seasonally during the past fortnight, other components of our Business Activity index have fallen off somewhat more rapidly than usual at this time of year; so that the country's total volume of production on a per capita basis has receded to around 84.5% of normal, from the recovery peak of 87.6% reached during the second week of May. At the present time business activity is running about 13% ahead of last year at this season; but annual comparisons from now on until mid-July will be with a declining trend last year and so, other considerations equal, should become progressively more favorable up to that date. Thus it is already quite certain that second quarter earnings this year will be far ahead of those reported for the corresponding period in 1935. On the other hand it seems quite possible that third quarter achievements will make a less satisfactory comparative showing, since the business trend last year was sharply upward from mid-July to the second week in September.

Retail trade thus far in June, though fairly satisfactory in volume, has not quite come up to earlier expectations. In the New York Metropolitan area, sales gains for the first two weeks over the corresponding period in 1935 amounted to only 9.1%, though the lead has since been stepped up to around 10%. This compares with a May increase of 16% in department store sales for the country as a whole. Up to present writing the stores have taken in only a surprisingly small slice of the soldier bonus money; though automobile dealers report a noticeable increase in sales traceable to this source. Evidently the ex-service men are showing a commendable disposition to go slow on blowing in their windfall, a procedure which is likely to prove more beneficial in the long run, not only to the individual beneficiaries but to the nation's business; since a steady flow of expenditures is always preferable to a spectacular splurge followed by the inevitable reaction.

Other trade reports for May make a very gratifying comparison with figures reported for the corresponding month of 1935, with variety store sales up 12.2%, other chain stores gaining 16.4% (against a five months' increase of only 10.2%) and rural merchandise sales showing a betterment of 21.5%. Wholesale trade for May ranged all the way from a 34% gain over the previous May on jewelry items to a decrease of 14.8% in shoes, with an average improvement of 3.2% for all lines.

In the capital goods field reports for May have been somewhat mixed in character, though generally gratifying. Thus machine tool sales in May were 60% heavier than for May, 1935, and construction contracts awarded in 37 states east of the Rockies rose 70%. On the other hand, new corporate capital raised through flotation of securities in May amounted to only 33.5 millions against 45.2 millions for the previous May. This was probably merely a natural reaction, however, from the comparatively large



sum of 128 millions raised in April this year. A recently released Department of Labor report for May shows, in comparison with the corresponding figures for May of 1935, a rise of 5.5% in factory employment, a gain of nearly 10% in weekly wages, and an expansion of more than 15% in factory payrolls. New life insurance written in May gained 2.9% over the previous May, against a five months' decrease of 4.2%.

The sharp upturn in our Raw Material Price index during the past fortnight is attributable largely to a new drought scare, though other staples have displayed moderate strength, with the exception of tin which has been conspicuously weak in response to larger world stocks and uncertainty as to renewal this autumn of the international agreement to control output.

The Trend of Major Industries

STEEL—Although stocking by customers before higher prices go into effect on July 1 is partly responsible for the recent rise in steel mill activity to within striking distance of the year's peak, a surprisingly large volume of output is going directly into consumption. A considerable number of producers have announced that deliveries on second quarter orders, at former low prices, will be permitted up to as late as July 20, a concession which has obviated an abnormal June-end bulge in operations and consequently reduced the danger of a sharp slump in output after July 1. This policy should help third quarter profits inasmuch as costs are lower under a comparatively steady rate of production. Recently announced price increases on track accessories to become effective August 1, and rumors that rails may be advanced later, are stimulating purchases by the railroads. Steel is moving freely for freight car repairing and inquiries for new equipment are expanding. It is believed in the trade that U. S. Steel common stock will show earnings for the second quarter of over $1 a share.

METALS—Non-ferrous metal prices have held generally steady during the past fortnight; though tin has continued to decline owing to uncertainties as to renewal this autumn of the international agreement to control output. The outlook for this metal has become further clouded by experiments looking to the substitution of aluminum as a metallic coating. It is reported that the Crown Cork & Seal Corp. is already using this process and thereby effecting a saving of more than 50% in cost; since aluminum can be had for 20 cents a pound against the present price of around 40 cents for tin, and costs less to apply.

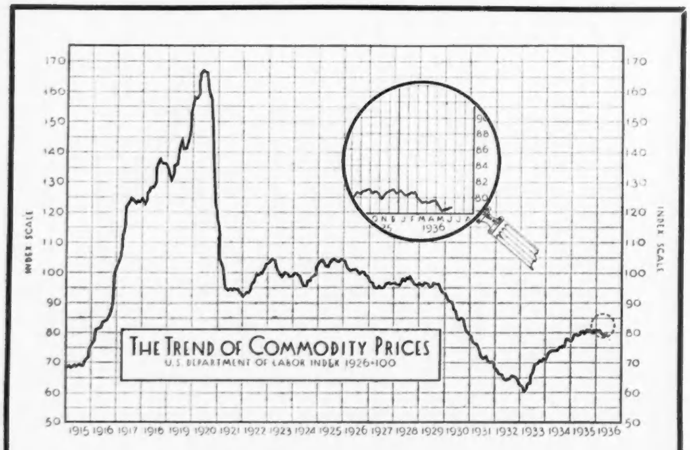
PETROLEUM—Excessive drilling is largely responsible for holding crude output at close to record volume; yet inventories are still 2% under last year, and a phenomenal expansion in demand is rapidly reducing stocks of gasoline to safer proportions. The reduction would be even more rapid were it not for a threatened shortage in fuel oil which has induced some refineries to flood the market with gasoline in order to build up stocks of this by-product. With stabilized prices and expanding volume of sales, it is expected that second quarter earnings of many oil companies will be considerably higher than during the first quarter and much better even than results for the second quarter of 1935. Owing to the restoration of prices in California during the second quarter, the profits of companies operating in that State should show exceptionally gratifying improvement.

RAILROADS—The first 11 roads to report for May show an increase of 16.5% in operating revenues and a 41.7% gain in net operating income over May, 1935. That possibilities for further improvement are even greater than indicated by this compilation may be inferred from an analysis disclosing that nearly 40% of the increase in gross receipts of Class I carriers during the first four months of the current year was absorbed by increased outlay for maintenance. While as yet too soon to gauge results, it is known that eastern trunk lines have experienced a substantial increase in traffic volume since passenger fares were reduced. Not all of the improvement should be credited to lower fares; since spectacular gains in passenger traffic are being experienced by all types of transportation—land, water and air.

TEXTILES—With rising prices for cotton, wool, silk and rayon, the earnings outlook for all branches of the textile industry has brightened materially. In rayon yarn a shortage is predicted, despite record production. Hosiery shipments are running about 10% ahead of last year, though wool consumption is off about 10%.

Conclusion

While the Business Activity index has of recent weeks displayed a mild tendency to sag, it is already quite evident that the nation's average production, and consequently the majority of earnings for the second quarter will compare very favorably with results reported for the corresponding period of 1935. Third quarter achievements, on the other hand, will probably not make quite such a satisfactory comparative showing, though present prospects point to some improvement over the third quarter of last year. In this connection it may be of interest to observe that our Common Stock index, which is composed of 295 active stocks, has thus far indicated only a feeble recovery for the market as a whole; while other well known indexes, which include only a few dozen high grade issues, have nearly, or more than, made up their April losses.

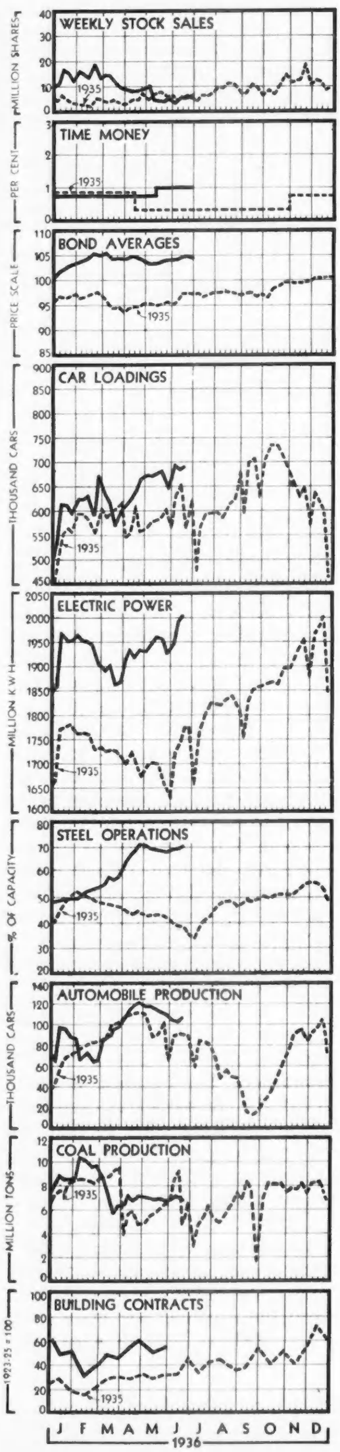


Changes in Major Commodity Price Group for the Fortnight Ended June 20, 1936

Farm Products	down 0.9	Metals	down 0.2
Foods	up 0.1	Building materials	down 0.1
Hides and leather	down 0.2	Chemicals	up 0.3
Textiles	up 0.3	Housefurnishings	no change
Fuel and lighting	down 0.3	Miscellaneous	up 0.6

The Magazine of Wall Street's Indicators

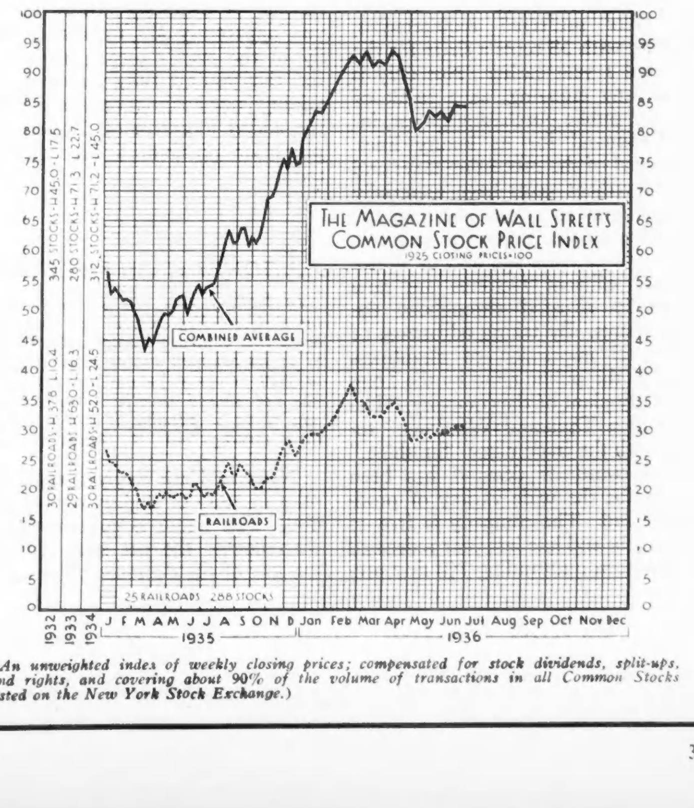
Business Indexes



Common Stock Price Index

1935 Indexes High	1935 Indexes Low	1935 Indexes Close	Number of Issues	(1925 Close—100)	1936 Indexes High	1936 Indexes Low	June 13	June 20	June 27
78.6	43.0	78.4	295	COMBINED AVERAGE	93.9	78.4	84.4	84.2	84.2
119.5	64.1	113.4	5	Agricultural Implements	186.9	113.4	181.3	184.5	181.9
41.9	17.8	41.6	6	Amusements	50.8	39.9	40.6	39.9x	41.1
116.9	44.6	116.9	14	Automobile Accessories	142.2	116.8	121.9	121.8	120.9
17.7	8.8	17.7	13	Automobiles	24.2	17.7	20.4	20.2	20.5
108.2	41.3	108.2	7	Aviation (1927 Cl.—100)	141.0	104.3	118.0	116.4	115.5
14.7	7.9	14.7	3	Baking (1926 Cl.—100)	17.6	12.6	13.9	13.4	13.4
325.0	184.9	318.6	2	Bot. & Cks. ('32 Cl.–100)	399.6	318.6	376.0	384.2	392.5
209.9	113.7	209.9	3	Business Machines	251.0	207.4	213.1	212.2	207.6
316.6	226.1	287.4	2	Cans	287.4	250.9	267.9	273.7	269.0
202.7	144.6	195.6	8	Chemicals	224.1	187.5	190.8	192.6	191.4
42.8	22.6	42.8	10	Construction	62.9	42.8	54.2	54.6	52.8
88.6	35.7	87.9	6	Copper & Brass	123.6	87.9	109.0	107.0	107.9
39.3	27.5	39.3	2	Dairy Products	44.1	39.3	43.0	43.7	45.7
26.6	16.0	23.5	9	Department Stores	27.7	23.3	27.6	27.5	26.6
87.6	56.1	85.8	7	Drugs & Toilet Articles	98.9	73.1	75.8	75.9	73.1x
270.0	211.2	231.8	2	Finance Companies	333.3	227.2	314.5	314.1	333.3H
66.2	51.8	62.0	7	Food Brands	70.1	62.0	66.0	65.1	63.4
56.4	46.2	47.1	4	Food Stores	50.3	42.2	45.3	44.3	43.3
65.7	32.1	65.7	3	Furniture & Floor Cover	76.9	65.7	71.4	71.9	71.5
1209.7	990.2	1116.0	3	Gold Mining	1296.9	1116.0	1276.8	1234.4	1242.1
46.8	35.3	46.8	5	Household Equipment	54.4	46.5	48.7	48.9	49.1
38.7	17.0	38.3	5	Investment Trusts	45.3	36.6	39.4	39.6	40.6
359.0	223.6	323.8	2	Liquor (1932 Cl.—100)	333.8	265.2	265.2x	280.4	271.3
139.0	65.1	139.0	9	Machinery	160.8	134.7	144.8	146.1	143.2
67.3	36.0	65.9	2	Mail Order	76.5	61.3	76.5H	74.6	74.7
63.0	34.5	62.4	4	Meat Packing	83.9	59.4	62.9	59.4x	60.1
183.6	109.4	169.5	10	Metal Mining & Smelting	189.4	162.1	165.5	163.3	162.7
97.2	51.3	97.2	24	Petroleum	122.3	79.2	101.3	102.3	105.0
67.2	23.0	67.2	18	Public Utilities	83.8	67.2	81.3	81.0	79.2
33.0	15.9	31.5	3	Radio (1927—100)	35.4	26.7	39.9	29.9	29.5
55.7	29.3	55.7	8	Railroad Equipment	73.8	52.5	58.9	58.1	58.0
28.8	16.5	27.3	24	Railroads	37.6	27.3	30.2	30.6	30.7
16.8	5.2	16.1	3	Realty	22.9	13.4	14.4	16.1	15.0
76.4	28.5	76.4	3	Shipbuilding	87.6	62.7	69.2	75.3	72.5
88.1	37.6	88.1	11	Steel & Iron	110.7	85.2	91.6	90.5	90.1
30.4	21.1	30.4	5	Sugar	41.3	29.8	36.2	35.6	37.8
153.6	122.5	153.6	2	Sulphur	175.6	153.4	158.2	157.8	155.0
78.3	34.2	77.5	3	Telephone & Telegraph	97.4	76.6	83.8	85.1	85.1
73.5	34.7	70.5	8	Textiles	81.4	62.0	64.7	63.6	64.6
10.6	6.0	10.6	4	Tires & Rubber	15.9	10.6	14.3	14.3	14.2
101.8	77.2	96.5	4	Tobacco	100.2	87.2	93.8	94.2	93.0
85.4	51.0	72.1	4	Traction	76.2	61.0	66.8	68.3	65.1
282.8	219.7	259.5	4	Variety Stores	267.8	232.5	248.8	253.0	260.5

H—New HIGH record since 1931. x—New LOW this year.



(An unweighted index of weekly closing prices; compensated for stock dividends, split-ups, and rights, and covering about 90% of the volume of transactions in all Common Stocks listed on the New York Stock Exchange.)

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1. Give all necessary facts, but be brief.
2. Confine your request to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
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LOOSE-WILES BISCUIT CO.

I notice first-quarter earnings for Loose-Wiles Biscuit Co. showed 68 cents a share against 58 cents in the same period last year. Do you feel this might be indicative of a brighter outlook ahead? Do you favor its retention in an income-building program?—M. K., Jersey City, N. J.

Despite unfavorable conditions in the early months of 1935, Loose-Wiles Biscuit Co. for the full year was able to show a modest improvement in net. This trend continued during the initial quarter of the current year with earnings of 68 cents a share on the common stock, after preferred requirements, comparing with 58 cents a share for the like period a year earlier. Not only is the company enjoying, as a result of broadened public purchasing power, increased demand for its luxury lines, but removal of the processing taxes and lower ingredient costs have materially improved profit margins. The company is continuing the expansion program started several years ago and its up-to-date and efficient factories are now strategically situated throughout the United States. By taking advantage of the general impression of cleanliness created in the public mind by the Long Island City plant of the company, "The Bakery of a Thousand Windows," together with the trade name "Sunshine," a broad consumer demand has been built up for the wide variety of products handled. The company is free of funded debt and late last year redeemed all of its then outstanding 7% first preferred which was replaced by an issue of 5% preferred. The current financial condition of the company is remarkably strong, with current assets of $8,519,785, including cash of $2,299,666, comparing with current liabilities of $1,304,251, at the close of last year. In view of the improved earnings performance recently, and the better outlook, the $2 annual rate on the common is believed secure, with the possibility of more liberal payments later on. At current quotations, the common stock yields better than 4.5%, which, in this market, is definitely attractive. Since you apparently are interested primarily in the stock's income features, we feel that you are fully warranted in retaining your holdings on that basis, with the added incentive of interesting appreciation possibilities over the longer term.

NATIONAL CASH REGISTER CO.

In looking over the statistics for National Cash Register, I was surprised to learn this company earned between $4 and $7 on its common shares in the years prior to 1929. Does it follow that the company has not shared greatly in recovery? Do you think it possible it can again attain these earnings?—F. B., Dallas, Texas.

National Cash Register reported net sales in 1935 of slightly over $35,000,000. This figure is considerably more than double the net sales reported at the low of the depression year of 1932. We do not think, therefore, that it can be truthfully said that in point of sales volume, National Cash Register is lagging in the recovery. It is true, however, that considerable ground must be covered before they will approach the peak sales recorded in 1929, of over $57,600,000. It is equally true that a considerable improvement must be shown in the ratio of net earnings to volume of sales, before per share earnings can approach levels recorded prior to the depression. Earnings per share in 1929 were equal to $5.12, and in 1935 notwithstanding the recovery thus far recorded, per share earnings were equal to only 93 cents. It is interesting to note, however, that as sales volume increases, the ratio of net earnings to sales volume also increases. For instance in 1929 the net earnings were equal to 14½% of the sales, whereas in 1935 the net earnings were equal to only 4.3% of the sales. Undoubtedly the decrease in operating expenses and costs per unit is in direct proportion to the volume of sales—a very natural condition. For instance, if in the year 1935 the company had been able to reduce operating costs so that the ratio of net to gross had been 14½% as shown in 1929, the net earnings per share would have been $3.13, instead of the 93 cents actually shown. It is fair to assume, therefore, that as volume increases, so proportionate operating costs and expenses will be reduced and the earnings per share reflect that

(Please turn to page 375)

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New York Stock Exchange

Rails

	1934		1935		1936		Last Sale	Div'd $ Per
	High	Low	High	Low	High	Low	6/24/36	Share
A								
Atchison	74¾	45¼	60	35¾	86⅝	59	78⅞	†2
Atlantic Coast Line	54¼	24½	37¼	19½	35¾	21⅝	24½	..
B								
Baltimore & Ohio	34½	12¾	18	7½	24¼	15⅞	18⅝	..
Bangor & Aroostook	46⅛	35½	49½	36⅛	49½	41⅞	43½	2.50
Brooklyn-Manhattan Transit	44⅞	28¼	46¾	36½	50½	40¼	49	3
C								
Canadian Pacific	18¼	10⅞	13¾	8⅝	16	10⅞	12⅞	..
Chesapeake & Ohio	48⅝	39½	53¼	37⅛	74½	59	71¼	3
C. M. & St. Paul & Pacific	8½	2	3	¼	2⅞	1½	1¾	..
Chicago & Northwestern	15	3¼	5⅝	1⅜	4⅞	2½	3	..
Chicago, Rock Is. & Pacific	6¼	1⅜	2⅝	¾	3	1½	2	..
D								
Delaware & Hudson	73½	35	43½	23½	52	36¾	40¾	..
Delaware, Lack. & West	33¾	14	19⅛	11	23⅛	14⅞	16⅝	..
E								
Erie R. R	24⅞	9⅜	14	7⅛	17⅝	11	13	..
G								
Great Northern Pfd	32½	12¼	35⅛	9⅝	44	32¼	40	..
H								
Hudson & Manhattan	12⅛	4	5½	2¾	5⅞	3⅛	3¼	..
I								
Illinois Central	38⅞	13⅝	22¼	9½	28⅞	18⅝	21⅞	..
Interborough Rapid Transit	17½	5¼	23⅝	8¾	18⅞	11½	14¼	..
K								
Kansas City Southern	19¾	6⅝	14½	3¾	26	13	21¼	..
L								
Lehigh Valley	21¼	9½	11½	5	14⅜	8½	10	..
Louisville & Nashville	62½	37¾	64¾	34	77½	57½	74½	‡2
M								
Mo., Kansas & Texas	14⅞	4⅜	6⅜	2½	9⅝	5½	8⅝	..
Missouri Pacific	6	1½	3	1	4	2⅛	2⅜	..
N								
New York Central	45¼	18⅜	29¾	12¼	42¼	27¾	37⅛	..
N. Y., Chic. & St. Louis	26⅞	9	19	6	35½	17¾	32⅝	..
N. Y., N. H. & Hartford	24⅛	6	8½	2⅝	5⅝	3	3¼	..
Norfolk & Western	187	161	218	158	240	210	240	*8
Northern Pacific	36¼	14½	25¼	13⅛	36¾	24⅛	28¾	..
P								
Pennsylvania	39⅛	20⅛	32½	17¼	39	28¼	32⅝	‡1
Pere Marquette	38	12	34½	9¼	37½	25⅛	37	..
Pittsburgh & W. Va	27	10	25	6⅞	41¼	21	33¾	..
R								
Reading	56⅜	35⅛	43⅛	29⅞	48¾	35½	39	2
S								
St. Louis-San Fran	4⅝	1⅛	2	¾	3⅝	1½	2⅛	..
Southern Pacific	33¾	14⅞	25½	12¾	38⅞	23½	34¾	..
Southern Railway	36½	11½	16½	5½	20⅝	12¾	16	..
T								
Texas & Pacific	43¼	13½	28½	14	44	28	43	..
U								
Union Pacific	133⅞	90	111½	82½	138¼	108½	131¾	6
W								
Western Maryland	17¼	7⅛	10⅛	5½	12⅛	8⅛	9⅛	..
Western Pacific	8½	2⅝	3⅜	1⅛	4	2	2⅛	..

Industrials and Miscellaneous

	1934		1935		1936		Last Sale	Div'd $ Per
	High	Low	High	Low	High	Low	6/24/36	Share
A								
Adams-Millis	34⅞	16	37¼	38	35¾	17⅞	20	‡.75
Air Reduction	113	91¾	173	104¾	70½	58	69⅞	*1
Alaska Juneau	23⅞	16⅝	20⅛	13¼	17⅜	13¼	13⅞	*.60
Allied Chemical & Dye	160¾	115⅛	173	125	208	157	205	6
Allis Chalmers Mfg	23⅜	10⅜	33⅞	12	50½	35⅜	48¾	1
Alpha Portland Cement	20⅛	11½	22¾	14	28½	19¾	22¾	1
Amerada	55⅝	39	80	48½	125½	75	96½	2
Amer. Agric. Chemical (Del.)	48	25¼	57¾	41½	63¼	50	52½	3
American Bank Note	25¼	11½	47¾	13½	55½	42⅛	43¾	1
Amer. Brake Shoe & Fdy	38	19½	42½	21	50⅞	40	48	1.60
American Can	114¾	90¼	149⅝	110	135¼	115¾	133⅞	*4
Amer. Car & Fdy	33⅞	12	33⅞	10	41	30	36½	..
American Chicle	70⅝	46¼	96	66	95½	87⅝	90⅞	4
American & Foreign Power	13¾	3⅞	9¼	2	9¾	6½	7⅜	..
Amer. Power & Light	12¼	3	9⅝	1½	13½	7½	12¼	..
Amer. Radiator & S. S	17⅝	10	25⅛	10½	27⅜	18¾	20⅝	..
Amer. Rolling Mill	28¼	13½	32⅜	15¾	34	25¾	27	1.20
Amer. Smelting & Refining	51¼	30¼	64⅝	31⅝	91½	56¾	81¾	2
Amer. Steel Foundries	26½	10⅛	25¼	12	33⅜	20½	29	..
Amer. Sugar Refining	72	46	70½	50⅛	61⅛	48¼	53⅜	2
Amer. Tel. & Tel	125¼	100⅛	160½	98⅞	178	149½	169⅞	9
Amer. Tob. B	89	67	107	74¾	104	88½	99½	5
Amer. Water Works & Elec	27⅝	12⅝	22¾	7⅛	25¼	19⅛	23¾	..
Amer. Woolen Pfd	83¾	36	68¾	35½	70¾	54¾	69	2
Anaconda Copper Mining	17¾	10	30	8	39¾	28	35¾	‡.50
Armour Co. of Ill	6¾	3½	6⅛	3¼	7⅜	4⅝	4¾	..
Atlantic Refining	35¼	21½	28	20½	35⅛	26⅝	29	1
Auburn Auto	57⅜	16½	45½	15	54¼	26⅝	29½	..
Aviation Corp. Del	10¾	3¾	5¼	2¾	7¾	4⅝	5½	..
B								
Baldwin Loco. Works	16	4½	6⅝	1½	6⅞	3	3⅛	..
Bayuk Cigar	45¾	23	66¾	37½	18¾	17	17½	.75
Beatrice Creamery	19¾	10¼	20⅛	14	26	18	24⅝	1
Beech-Nut Packing	76⅝	58	95	72	96	85	93⅞	*3
Bendix Aviation	23⅞	9¾	24½	11⅞	31¾	21⅝	27¾	1

Price Range of Active Stocks

Industrials and Miscellaneous *(Continued)*

	1934 High	1934 Low	1935 High	1935 Low	1936 High	1936 Low	Last Sale 6/24/36	Div'd $ Per Share
B								
Best & Co.	40	26	57½	34	57¼	48	54¾	*2
Bethlehem Steel	49½	24⅛	52	21⅝	63¾	45¾	54⅜	..
Bohn Aluminum	68¾	44½	59⅞	39⅝	63⅛	46¼	47	3
Borden Company	28¼	19⅞	27¾	21	30¼	25⅝	29⅞	1.60
Borg Warner	31⅜	16⅛	70½	28¼	83½	64	75⅞	3
Briggs Mfg	28⅜	12	55⅜	24½	64⅞	43¼	52¼	*2
Bristol-Meyers	37½	26	42	30⅜	48½	41	44½	*2
Burroughs Adding Machine	19⅜	10½	28	13¼	33¼	25	26½	*.60
Byers & Co. (A. M.)	32¾	13¾	20⅝	11⅜	25¼	16½	19¼	..
C								
California Packing	44⅜	18¾	42½	30½	37⅝	30¼	31⅜	1.50
Canada Dry Ginger Ale	29½	12½	17⅝	8⅛	16½	10⅜	14⅛	..
Case, J. L	86¾	35	111¼	45¾	186	92½	181¾	..
Caterpillar Tractor	38¾	23	60	36½	79	54¾	77¾	2
Celanese Corp	44⅞	17⅛	35⅜	19½	32¼	21¾	24¼	†1.50
Cerro de Pasco Copper	44½	30¼	65¾	38⅝	58	47¾	54¼	4
Chesapeake Corp	48⅞	34	61¼	36	74½	59	71¼	3
Chrysler Corp	60⅜	29¼	93⅞	31	109	85½	108¾	6
Coca-Cola Co	161½	95¼	93	72½	102	84	100¼	2
Colgate-Palmolive-Peet	18⅛	9⅜	21	15⅛	20½	13¼	13½	.50
Columbian Carbon	77¼	58	101¼	67	134	94	125½	*4
Colum. Gas & Elec	19¼	6⅝	15¾	3⅜	21⅝	14	19⅝	†.20
Commercial Credit	40¼	18⅝	58	39½	64⅞	44	62¼	3
Comm. Inv. Trust	61	35¾	72	56¼	82¾	55	74⅞	*3.60
Commercial Solvents	36¾	15¾	23⅞	16½	24⅝	15	15¼	.60
Congoleum-Nairn	35⅜	22	27	45¾	44½	32⅝	34	1.60
Consolidated Edison of N. Y.	47⅜	18½	34¾	15⅞	38⅝	27¼	36¾	1
Consol. Oil	14¼	7¼	12¼	6½	15¼	11½	12¾	.60
Container Corp.	....	....	23⅛	22	26¼	15¾	18⅝	..
Continental Can	64½	56¾	99¼	62¾	87¼	67½	77¾	3
Continental Insurance	36¼	23⅜	44⅞	28⅞	46	35½	40¾	*1.20
Continental Oil	22¾	15¾	35	15⅛	38½	28⅛	31⅛	1
Corn Products Refining	84½	55½	78⅜	60	82½	68½	81⅞	3
Crown Cork & Seal	36¼	18¾	48⅞	23½	63¾	43⅝	61¾	1
Cudahy Packing	52⅝	37	47½	35⅛	44½	35½	36⅜	2.50
Cutler-Hammer	21½	11	47	16	65	43¼	53½	*1
D								
Deere & Co.	34⅛	10⅛	58¾	22¾	89¼	52	80⅛	..
Diamond Match	28½	21	41	26½	40½	33⅞	35¾	*1.50
Distillers Corp. Seagrams	26⅝	8⅞	38½	13⅝	34⅝	18¼	22	..
Dome Mines	46¼	32	44⅞	34⅛	61½	41½	56⅛	*2
Douglas Aircraft	28½	14¼	58⅜	17½	75¾	50⅝	63¾	..
Du Pont de Nemours	103⅞	80	146½	86⅝	153	133	151	*3.60
E								
Eastman Kodak	116½	79	172¼	110½	172	156	172	*5
Electric Auto Lite	31⅜	15	38⅜	19⅜	44⅝	30¾	37½	1.20
Elec. Power & Light	9⅝	2¼	7½	1⅛	16¾	6⅜	15¾	..
Electric Storage Battery	52	34	58¾	39	55¼	43¾	44	*2
F								
Fairbanks, Morse	18¾	7	39½	17	53⅜	34¾	51½	..
Firestone Tire & Rubber	25¼	13⅛	25½	13⅛	33⅛	24⅞	29½	1.20
First National Stores	69¼	53	58⅞	44⅜	48¾	40	48¼	2.50
Foster Wheeler	22	8½	30	9⅞	38¾	24⅛	27⅜	..
Freeport Texas	50⅜	21½	30⅝	17¼	35⅝	27½	29	1
G								
General Amer. Transpt	43⅝	30	48½	32⅝	63	42¼	49	1.75
General Baking	14⅜	6½	13⅜	7⅜	14¾	10¾	11⅝	.60
General Electric	25¼	16⅞	40⅞	20½	41⅞	34½	39¼	1
General Foods	36⅞	28	37½	30	43⅛	33⅜	42⅜	1.80
General Mills	64½	51	72½	59⅞	70½	59¾	64½	3
General Motors	42	24⅝	59⅜	26⅝	71	53⅞	68	*2
General Railway Signal	45¾	23½	41¼	15⅝	50	32½	35½	1
General Refractories	23⅜	10⅛	33½	16¾	44½	33¼	37½	1
Gillette Safety Razor	14⅞	8½	19½	12	18⅝	14⅝	14¾	1
Glidden	28⅜	15⅝	49½	23⅜	55¼	39¾	44½	2
Gold Dust	23	16	22	14⅜	21⅜	14½	14½	.60
Goodrich Co. (B. F.)	18	8	14½	7½	23⅞	13⅝	20⅛	..
Goodyear Tire & Rubber	41⅜	18½	26⅞	15¾	31⅞	21¾	25¾	..
Great Western Sugar	35¼	25	34⅞	26⅝	39	31	36	2.40
H								
Hercules Powder	81⅝	59	90	71	105½	84	105	5
Hershey Chocolate	73¾	48½	81¾	73¼	80	71⅝	72¼	3
Homestake Mining	430½	310	495	338	544	445	445	*12
Hudson Motor Car	24½	6⅛	17½	6¼	19¾	13½	17⅛	..
Hupp Motor Car	7¼	1⅞	3⅞	¾	3¼	1	2⅜	..
I								
Industrial Rayon	32¼	19⅜	36⅜	23½	34⅝	25⅝	29⅝	1.68
Ingersoll-Rand	73¾	49½	121	60½	147	106	123	*2
Inter. Cement	37¾	18⅜	36⅞	22⅞	49¾	35½	47½	1.50
Inter. Harvester	46⅞	23¼	65⅝	34⅛	90½	56⅝	88½	1.20
Inter. Nickel	29¼	21	47¼	22¼	54¼	43¼	51¾	1.20
Inter. Tel. & Tel	17¾	7½	14	5⅝	19¼	12⅛	15	..
J								
Jewel Tea Co	57½	33	67	49	78½	58½	78½	*4
Johns-Manville	66⅜	39	99½	38½	129	88	104⅜	2
K								
Kelvinator	21¼	11⅝	18¼	10¼	25⅝	14¾	19¾	*.50
Kennecott Copper	23⅛	16	30⅜	13¾	41⅝	28¼	39½	1.20
Kroger Grocery & Baking	33⅝	23¼	32⅛	22¼	28	22⅛	22¼	1.60
L								
Lambert	31¾	22¼	28½	21¾	26¾	19½	20¾	2
Lehman Corp	78	68¼	95¾	67⅛	100¾	89	99	*3
Libbey-Owens-Ford	43⅞	22½	49¼	21½	63⅛	47¼	57½	2
Liggett & Myers Tob. B	111¼	74½	120	94¼	116½	97¾	108¾	*4
Loew's	37	20⅜	55⅛	31¼	54⅞	43	49¼	*2
Loose-Wiles Biscuit	44¾	33¼	41⅝	33	45	40½	44	2
Lorillard	22½	15¾	26½	18½	26½	21⅛	22½	1.20

Dividends & Interest

New York
June 15, 1936.

Philip Morris & Co., Ltd., Inc.

A dividend of 2½% (25¢ per share) has been declared on the Capital Stock, payable July 15, 1936, to Stockholders of record, July 1, 1936.

L. G. HANSON, Treasurer.

THE CUDAHY PACKING COMPANY

Chicago, Ill., June 19, 1936.

The Board of Directors has this day declared a quarterly dividend of sixty-two and one-half cents (62½c) per share on the outstanding Common Stock of the Company, payable July 15, 1936 to stock of record July 3, 1936.

A. W. ANDERSON, Secretary.

New York Stock Exchange Price Range of Active Stocks

Industrials and Miscellaneous *(Continued)*

	1934		1935		1936		Last Sale 6/24/36	Div'd $ Per Share
	High	Low	High	Low	High	Low		
M								
Mack Truck	41¾	22	30⅝	18⅝	37	27⅜	34	1
Macy (R. H.)	62⅛	35¼	57½	30½	49⅜	40⅛	42⅞	2
Mathieson Alkali	40¾	23½	33⅞	23¾	36½	27½	30¼	1.50
May Dept. Stores	45¾	30	57¾	35⅞	53½	43¼	50¾	2
McIntyre Porcupine	50½	30½	45⅝	33¾	49⅜	39⅝	43	2
McKeesport Tin Plate	95⅛	79	131	90½	118½	103	103½	*4
Mesta Machine	34¾	20⅛	42⅝	24⅛	51¾	40⅝	50	3
Monsanto Chemical	96½	39	94¾	55	103	79	93¾	*1
Mont. Ward & Co	35⅝	20	40⅞	21¾	45⅞	35¾	45¼	.80
N								
Nash Motor	32¼	12⅝	19½	11	21⅞	16⅜	17	1
National Biscuit	49½	25⅞	36⅜	22¼	38¾	31⅛	36	1.60
National Cash Register	23⅝	12	23½	13½	30	21½	23⅝	.50
National Dairy Prod	18¾	13	22⅛	12⅞	26⅛	21	26⅛	1.20
National Distillers	31⅝	16	34½	23⅛	33⅜	25⅝	27¾	2
National Lead	170	135	206	145	31⅜	27	29	.50
National Power & Light	15½	6⅝	14¾	4⅞	14⅞	9⅝	11	.60
National Steel	58¼	34½	83¾	40⅜	75	57¼	67	1.50
N. Y. Air Brake	28¾	11½	36½	18½	42¾	32½	42½	..
North American	25¼	10¼	28	9	32⅛	23⅛	29¼	1
O								
Otis Elevator	19⅜	12½	26⅝	11⅛	32¾	24¼	26⅛	.60
Owens Ill. Glass	94	60	129	80	164	128	150	5
P								
Pacific Gas & Electric	23½	12⅜	31⅝	13⅛	39⅝	30¾	38¾	1.50
Pacific Lighting	37	20¾	56	19	56⅞	47⅝	51⅞	2.40
Packard Motor Car	6⅝	2¾	7½	3½	13	6⅞	11⅛	‡.25
Paramount Pictures	....	....	12	8	12	7⅝	8⅝	..
Penney (J. C.)	74¼	51½	84¾	57¼	85¾	69	85½	*3
Phelps Dodge	18⅞	13¼	28⅛	12¾	40¼	25⅝	35⅝	‡.50
Phillips Petroleum	20¾	13⅜	40	13¾	49⅜	38⅛	42⅛	*1
Pillsbury Flour Mills	34¾	18½	38	31	37¼	30⅞	33	1.60
Procter & Gamble	44⅜	33⅛	53¾	42⅜	49	40¼	45	1.50
Public Service of N. J	45	25	46¾	20⅜	48¾	39	45⅜	2.40
Pullman	59⅜	35¼	52⅞	29½	48⅞	36⅞	47¾	1.50
R								
Radio Corp. of America	9⅛	4½	13⅜	4	14¼	9¾	11¾	..
Radio-Keith-Orpheum	4¼	1½	6	1¼	9¼	5	6	..
Raybestos-Manhattan	23	14½	30¼	16½	38¼	28⅞	31¾	1.50
Remington Rand	13⅜	6	20¾	7	23¾	18½	19½	*.60
Republic Steel	25¾	10½	20¾	9	26¾	16⅞	20¼	..
Reynolds (R. J.) Tob. Cl. B	53¾	39¾	67	55¼	58⅝	50	55	3
S								
Safeway Stores	57	38¼	46	31⅝	35½	30	32	2
Schenley Distillers	38⅞	17⅛	56¼	22	52	38⅜	42⅞	‡.75
Sears, Roebuck	51¼	31	69⅞	31	76⅜	59⅝	75⅞	2
Servel	9	4⅜	17	7⅝	24	15⅝	24	.60
Shattuck (F. G.)	13⅞	6¾	12⅞	7¼	16¾	11⅛	14⅛	.50
Shell Union Oil	11½	6	16½	5½	19¼	14¾	17	..
Socony-Vacuum Corp	19⅞	12½	15¾	10⅝	17	12½	12⅞	.40
So. Cal. Edison	22⅛	10⅛	27	10⅝	29⅛	25	28½	1.50
Spiegel May Stern	76¾	64	84	43⅞	77¾	63	70½	3
Standard Brands	25¼	17¼	19⅛	12½	18	14⅜	15⅞	.80
Standard Oil of Calif	42⅞	26½	41⅛	27¾	47⅝	35⅜	37¼	*1
Standard Oil of Ind	32¾	23¼	33⅜	23	40⅛	32¾	33¾	*1
Standard Oil of N. J	50⅛	39¼	52⅜	35¾	70	51⅛	59⅛	*1
Sterling Products	66½	47¼	68	58¾	71⅜	65	70¾	3.80
Stewart-Warner	10⅝	4½	18⅞	6⅝	24½	16½	19⅛	.50
Stone & Webster	13¼	3⅞	15⅛	2½	21¼	14⅝	19¼	..
Sun Oil	74½	51½	77	60½	91	72	78½	*1
T								
Texas Corp	29⅜	19⅝	30¼	16½	39½	28⅞	34⅜	1
Texas Gulf Sulphur	43¼	30	36¾	28¾	38⅜	33	36½	2
Tide Water Assoc. Oil	14⅜	8	15⅞	7⅝	19⅛	14¾	15½	.60
Timken Roller Bearing	41	24	72½	28⅜	72½	56	61⅜	*2
Tri-Continental	6¾	3	8¼	1⅞	12	7⅛	9⅛	..
Twentieth Century-Fox	....	....	24⅞	13	32⅜	22½	24¼	..
U								
Underwood-Elliott-Fisher	58⅞	36	87¼	53¾	99	78	78⅛	3
Union Carbide & Carbon	50⅞	35⅞	75¾	44	92⅞	71⅝	91½	2.40
Union Oil of Cal	20½	11½	24	14¾	28½	20⅞	22¼	1
United Aircraft	15¼	8⅛	30⅜	9⅞	32⅜	20⅝	23⅞	..
United Carbon	50⅜	35	78	46	82¼	68	81½	2.40
United Corp	8⅞	2⅛	7¾	1½	9¼	5⅜	7⅜	..
United Corp. Pfd	37⅞	21¼	45¾	20¾	47¾	40¼	45½	3
United Fruit	77	59	92¾	60½	80⅛	66½	79⅞	3
United Gas Imp	20⅛	11½	18½	9¼	19½	14⅜	16⅜	1
U. S. Gypsum	51¼	34¼	87	40½	110½	88½	96	2
U. S. Industrial Alcohol	64¾	32	50⅝	35⅛	59	33½	35⅝	1
U. S. Pipe & Fdy	33	15½	22⅝	14¾	42⅞	21½	42	1.50
U. S. Rubber	24	11	17¼	9⅛	35	16⅜	31¼	..
U. S. Smelting, Ref. & Mining	141	96⅝	124½	91¾	96½	84½	87¾	‡8
U. S. Steel	59⅞	29⅜	50⅝	27½	72⅜	46⅜	64½	..
U. S. Steel Pfd	99½	67¼	119¼	73⅝	132¾	115½	129⅛	2
V								
Vanadium	31¾	14	21¾	11¼	27¼	16¼	19¼	..
W								
Warner Brothers Pictures	8¼	2¾	10¾	2¼	14⅝	9¼	10⅝	..
Western Union Tel	66⅞	29½	77¼	20⅝	95	72½	87¾	‡2
Westinghouse Air Brake	36	15⅞	35¾	18	48⅛	34¾	43	1
Westinghouse Elec. & Mfg	47¼	27⅞	98¾	32⅝	122⅞	94½	119¼	4
Woolworth	55¼	41¼	65¼	51	56⅜	44¾	53¾	2.40
Worthington Pump & Mach	31⅞	13½	25¼	11¾	35½	23⅛	26¾	..
Wrigley (Wm., Jr.)	76	54½	82¾	73¾	79	66	70¼	*3

* Annual Rate—not including extras. † Paid last year. ‡ Paid this year

Answers to Inquiries

(Continued from page 371)

improvement. We believe that National Cash Register is in a favorable position to extend sales materially as the recovery progresses. While maintaining products at a high standard, the company maintains its position as a leader in its field and creates additional markets for its products, largely through aggressive marketing policies and its constant researches seeking to widen the field of usefulness for these products. We believe, therefore, that given further recovery, ultimate re-attainment of former earnings on the shares of National Cash Register is not beyond the bounds of probability.

CHRYSLER CORP.

What is your opinion of Chrysler Corp.'s outlook? To what extent do you believe its possibilities are reflected in current prices? Would you continue to hold 200 shares bought at 78¼?—E. V. W., Santa Monica, Calif.

With the results attained by Chrysler Corp. thus far, there would seem to be little question but the company will continue to obtain its share of available business. The report of the company for the first quarter of 1936 was the best in the history of the organization for that period and was second only from an earnings standpoint to the closing quarter of 1935. While it is true that units sales declined about 3% from the first quarter of 1935, lower costs enabled the company to show a sizable increase in profits. Since the first quarter of the year there has been a sharp improvement in sales and full year 1936 earnings should run well above those of last year when the equivalent of $8.07 a share was recorded, against $2.19 a share in 1934. Not only is the company enjoying a good demand for its cars in the domestic market, but its overseas trade is reported to be running between 15% and 20% above a year ago. With the retirement of the Dodge debentures early last year, the company eliminated all funded debt and capitalization now consists solely of 4,314,391 shares of common stock having a par value of $5 per share. An examination of the balance sheet dated March 31, 1936, reveals total current assets of $129,123,793, including cash and marketable securities alone of about $70,000,000, against current indebtedness of $52,616,783. Reflecting the earnings improvement enjoyed a dividend of $1.50 a share was paid in the second quarter

this year, against $1 in the first quarter, 75 cents in the final quarter of 1935 and 50 cents in the two previous quarters. The $1.50 payment has not been officially designated as a regular quarterly distribution, but in view of the excellent financial status, maintenance of that rate with the possibility of another increase appears likely. Compared with other automobile stocks, Chrysler Corp. does not appear to fully discount current and prospective earnings power and since the latter is enhanced by the relatively small amount of stock outstanding, we recommend further retention of holdings.

GREAT NORTHERN RAILWAY CO.

I note that you say Great Northern Railway might earn as much as $4 to $5 this year. On this basis, don't you think its preferred should be considerably higher? Are dividends an early possibility?—S. B. L., Providence, R. I.

Report of Great Northern Railway Co. for the first four months of the current year revealed a net loss of $4,040,902, against $4,252,568 loss for the like interval a year earlier. Nevertheless, there has been a consistent increase in revenue freight cars handled as well as larger passenger traffic thus far this year. And while weather conditions in April retarted the movement of iron ore, there since developed a pronounced pickup, with steel mill activity holding up remarkably well for this season of the year. Revenues from this classification should continue well above a year ago. The road should also experience heavier lumber shipments in line with the increasing building construction throughout the country. Aside from the favorable prospects for the road's freight revenues, passenger traffic is expected to continue to expand. The road has successfully handled the $100,000,000 General 7s maturing July 1 through the issuance of convertible 4s, due July 1, 1946. These bonds were issued in two equal series, "G" and "H", each series having a different conversion feature. This refunding operation will result in a savings to the road in excess of $1,500,000 during the last six months of the year, which will tend to further bolster per share results. Thus, if the present strong recovery trend continues, as is indicated, earnings this year on the preferred stock should exceed $4 a share, which would compare with $2.87 a share last year. Of course, the conversion feature of the bonds may tend to dilute future per share earning power, although even if all the Series "G" bonds were to be converted, the increase in outstanding stock would only be from 2,485,000 shares to about 3,730,000 shares; the series "G" bonds are convertible at $40 a share and the Series "H" bonds at $75 a share, so that for all practical purposes, it is only necessary to consider the Series "G" insofar as possible near term dilution of equity is concerned. At present prices, it seems to us that the stock is undervalued, on a comparable basis with most other rail equities, and since the earnings prospects are bright, we feel that the shares should be retained with the reasonable expectation of resumed dividends in the not distant future.

HOWE SOUND CO.

With currency inflation sidetracked, do you believe the prospect for Howe Sound is such as to warrant holding shares bought at 52 for price appreciation?—T. T. A., Fort Worth, Texas.

Howe Sound Co. operates two mining properties, one in Canada and the other in northern Mexico. The Potosi property in Mexico produces principally lead, silver and zinc, while the Canadian property, Britannia Mining & Smelting Co., Ltd., is principally a copper producer, although small quantities of gold, silver and zinc also are recovered. Due to efficiency and low costs, the Mexican property has been operated near capacity during recent years, despite continued low quotations for lead and zinc, which metals account for the company's principal activities. Silver, of course, enjoyed improving quotations during the depression years and this tended to reduce costs of the Mexican property. An examination of the earnings record of the company reveals that since 1929, when a record high of $7.38 a share was reported, earnings tended downward through 1932, when a small loss was sustained. Since that time, however, consistent improvement has been recorded with earnings for last year having attained the highest level since 1929 at $4.94 per share. In the first quarter of the current year, earnings equalled $1.11 a share and compared with 82 cents a share in the March quarter of 1935. The management of the company recently announced that the British Colombia Mines were now being operated at about 25% of capacity and that conditions in Mexico augured well for continued satisfactory results from operations in that country. Since production is entirely outside of the United States, the company is practically precluded from the domestic market by tariff barriers. Nevertheless, its record shows that it can compete profitably in the world market and with the outlook for further recovery of metal prices, particularly copper and lead, earnings prospects are encouraging. Since the organization's entire capitalization consists of only 473,790 shares of stock, per share earnings can mount rapidly under favorable conditions. Finances are in excellent shape; the latest balance sheet reveals cash and government bonds of $5,069,423, or equal to better than $10 a share on the stock. A liberal dividend policy has been maintained by the management, total distributions last year having equalled $4.05 a share. It is expected that this policy will be continued in view of the ample cash resources of the company. On the basis of the income return and benefits likely to accrue to the company from higher metal prices, we feel that your holdings may be profitably retained.

REPUBLIC STEEL CORP.

I recently purchased some Republic Steel common at 17¼. This stock seems to lag behind other steel companies, such as U. S. Steel and Youngstown Sheet and Tube. Will you, therefore, advise me of your attitude towards it?—A. R. S., Kansas City, Mo.

We believe that Republic Steel Corp. has yet to demonstrate its possibilities. Record of earnings in past years cannot be taken as a criterion for the measurement of potential earnings because as it stands at the present time plant and properties, capital set-up and management bears little resemblance to the Republic Steel of the past. Even results recorded in the last quarter of the year 1935 and the first quarter of the current year, which included operations of the recently merged Corrigan, McKinney and Truscon Steel properties, are not fully indicative of possibilities, since the process of co-ordinating these added plant facilities has not yet been completed. Moreover, the results for the first quarter of the current year, which produced net earnings of approximately $360,000 ($1.34 a share on the prior preferred stock) were affected by the development of price unsettlement prevailing throughout the industry at the time. We do not have, therefore, an established precedent upon which to forecast future possibilities in the way of earnings, and must look to such intangible factors as management ability, possibilities for expansion in the further development of the market for its products, and increased operating efficiency incident to closer plant co-operation. These are potent elements, however, and should not be under-estimated. On the first point little need be said except to direct attention to reputations of the men who now compose the staff of chief executives. It will be recognized that such an asset ranks in importance with the factor of available capital and credit, not lacking, in our judgment, in this enterprise. On the second point it

may be noted that a survey of the facilities discloses Republic's fitness as a leader in the production of the lighter steel, including specialized steels and alloys. It can look to the automobile industry, furniture and residential building construction trade for an increasing volume of business. On the third point it may be observed that, under able management the process of co-ordinating recently acquired properties, and the development of operating efficiency as a unit, is a matter which may require time, but some progress has already been registered in this direction. It is our opinion, therefore, that in the purchase of your Republic Steel common stock, you have made a commitment which presents rather clearly defined long term speculative attraction. On that basis we would suggest retention.

BROWN SHOE CO.

Please advise me, a new subscriber, if you counsel the retention of Brown Shoe common shares. I have been very much disturbed by the earnings of 93 cents for the six months ended April 30, as compared with $1.53 for the same period a year ago—M. V., Seattle, Wash.

The contrast presented between the report of Brown Shoe for the first six months of the current year and that of the initial half of the preceding fiscal year may easily give rise to apprehension with regard to the future outlook for earnings. Despite this fact we are of the opinion that long pull holdings of the stock should prove worth while. A better test will be available when the results for the last half of the current fiscal year are known, because the second half is usually the more active and because the first half was not strictly normal in that the trade had purchased ahead of its requirements in the summer of 1935 in anticipation of rising prices. Current dividend disbursements seem well protected, particularly in view of the satisfactory financial status which is reported as of April 30th, showing current assets totaling over $13,400,000, against current liabilities of only $676,000 approximately. Cash holdings were in excess of $538,000. Full year earnings for the fiscal period ending October 31, 1935, were equivalent to $3.59 a share, and for the preceding year $3.71 a share on the common stock. Brown Shoe ranks as the third largest producer, concentrating its lines principally in low and medium priced shoes. Over a period of years the company has demonstrated stable earning ability and is now recognized as the manufacturer of a line which meets a fairly constant demand. The company leases the greater part of its machinery on the basis of the actual number of shoes manufactured on each machine, and as consumer purchasing power continues to increase the earnings of this company should reflect greater stability. In these considerations there appears to be a basis for an appraisal of this stock as one offering considerable merit as a dependable income producer, and on that consideration retention of your holdings would be in order.

WAUKESHA MOTOR CO.

Having purchased Waukesha Motors at 28 early this year, I am naturally disappointed in its market action. Do you feel that the stock has possibilities if held, or would you suggest a switch?—L. E. B., Miami, Fla.

Waukesha Motor Co. has long occupied an important position in the manufacture of internal combustion engines, adaptable for tractors, buses, trucks, and a variety of industrial purposes. Reflecting improvement in the general business situation and the aggressiveness of the management in developing new products and outlets, the company earned $4.93 a share in the fiscal year ended July 31, 1935, against $1.21 a share in the preceding fiscal year and a deficit of $1.23 a share a year earlier. In November, 1935, in order to broaden the market for the stock, the shares were split four-for-one. Capitalization now consists of 400,000 shares of $5 par capital stock and on this basis earnings in the latest fiscal year would have equalled $1.23 a share. In the past, the company reported earnings only once a year, so that no comparison is available with the report covering the nine months ended April 30, 1936, when 95 cents a share was reported. That the concern is a substantial earner under favorable conditions is amply attested by the report for the fiscal year ended July 31, 1929, when earnings on the old share capitalization equalled $18.02 per share. That figure on the basis of present capitalization would be equal to about $4.50 a share, and while general business conditions seem unlikely to reattain the level of 1929 for some time ahead, there are factors at work in the subject company's business which may enable it to surpass at a relatively early date its previous record. The concern has long specialized in Diesel engines and due to improved design and consequent greater efficiency, new markets are constantly opening up to this type of power. Small power plants throughout the country are installing Diesels as an economy measure in the production of electricity, while the fuel saving appeal in tractors, trucks and buses is stimulating sales despite the higher initial cost over the conventional type gasoline motor. Thus far, very little has been accomplished in the commercial application of Diesels to pleasure cars, but many competent observers feel that the time is not far distant when this tremendous field will be tapped. In addition to Waukesha's potentialities in the transportation division, it has developed a line of air conditioning equipment suitable for private homes, as well as hotels, apartments, stores and trains. With a sound financial condition and simple capital structure, we feel that the company's shares offer interesting speculative possibilities over the longer term and accordingly feel that further patience on your part is the best policy now.

COLLINS & AIKMAN CORP.

In view of its earnings of $6.28 last year, and the excellent business thus far this year, it seems to me that Collins & Aikman is underpriced at current levels. As I hold some of this stock I would be interested in your comment.—W. S. R., Davenport, Iowa.

If the earning power exhibited by Collins & Aikman in the last fiscal year (ended February 28) is to be considered a criterion by which to approximate future earning power, then undoubtedly the shares of Collins & Aikman Corp. at present prices, on the basis of the ratio of per share earnings to market price, are undervalued. It should be added that there are several factors such as the possibility of increased raw material prices, higher operating expenses, and decreased profit margins, which inject uncertainties into the future prospects, but there is no reason to expect such adverse developments in the near term. Offsetting these uncertainties, there is the quite definitely established trade position of Collins & Aikman in the automobile upholstery division of the business, which is by far its most important activity. Although only about one-quarter of the total volume of business of Collins & Aikman consists in supplying the furniture trade with upholstery material, that phase of the operations has developed considerable activity and it looks as though it would continue to contribute an expanding volume. The question remains as to whether or not the uncertainties inherent in raw material price levels have not been conceded exaggerated importance in the market's appraisal of the shares. It should be noted that the earnings for the last fiscal year included exceptional profit margins resulting from previously acquired inventories at lower price levels. This cannot be expected to contribute to the earnings in the current year, and while it may be that

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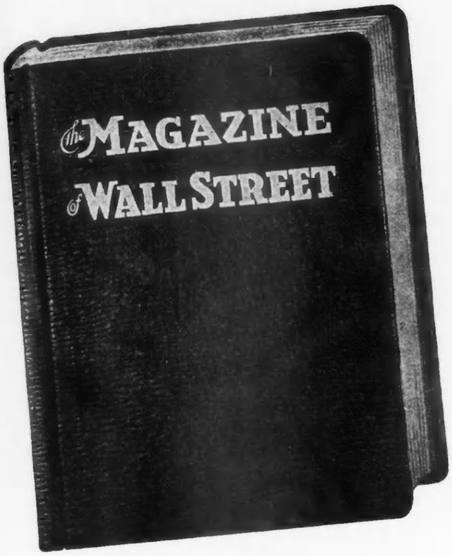

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some revision downward from the last recorded per share earnings should be made in estimating probable earnings for the current year, even allowing such a revision, the stock in our opinion, is not by any means over-priced at present levels. Moreover, first quarter earnings this year at $1.96 per share against $1.43 in the initial quarter of last year, are encouraging. The financial status gives considerable assurance of strength. Total current liabilities of about $2,400,000 were covered by total current assets of very nearly $12,000,000 at the close of the last fiscal year. Cash alone fell just short of $4,000,000.

Profits Follow the Pendulum of Change

(Continued from page 353)

Yet, while these developments would seem to menace the food producing function of the farm, tremendous possibilities still lie before agriculture. As Dr. Livingston has pointed out in these pages, (January 18, 1936, page 380) the raw material for industry will come increasingly from the farm.

All of this spells change, not for farming alone, but for the canning industry, food preserving, container manufacturing, chain stores, wholesalers and others. New industries will arise and the profits of chemical enterprises are certain.

Plastics are one of the chemical industry's progeny well on the road to maturity. Here a few cheap and abundant raw materials are put together in various combinations and emerge as competitors to rubber, wood, marble, brass, copper, steel, crystal and glass in the fabrication of hundreds of articles such as toilet accessories, ash trays, fountain pens, clock cases, artificial jewelry, lamp bases, electric fixtures, umbrella handles and dishes. Plastics are beautiful to look at, pleasant to handle, long wearing, and resistant to acids, heat and moisture. They have great mechanical stress and may be produced in any shape or color. It is understood that the automobile will use plastics in increasing quantities. Laminated plastics, combined with paper or fabric, suggest unbounded possibilities as building material. Already they are being used for switchboard panels, tables, bathroom walls, fireplaces and wallboards. Hardware and furniture are plastic possibilities as yet untouched.

The significance of this is that no industry can afford to assume it is invulnerable. Rayon injures silk and wool and thereupon is faced with potential competition from newer fabrics. Petroleum takes business from coal but scientists discover a process for making motor fuel from coal. Chemistry invades the farm and the farm becomes a bulwark of industry. Pulp and paper manufacturers make textile yarns, washable upholstery and rugs while cotton manufacturers experiment with the idea of "cotton houses" instead of wood. Every time an industry is injured another one benefits. More often than not the injured industry resorts to the laboratory and then proceeds to shoot at another industry, or even at its recent conqueror. Can it be that today an industry is only as strong as its scientific research?

There is no end to the amount of discussion that might be had on this subject. It is said the automobile has hurt meat packers by reducing the human body's energy requirements. The trucks versus the railroads is a modern classic. Although the commercial baker keeps the housewife at the bridge table, flour manufacturers are making it easier to bake. Gas companies compete with electricity for the privilege of cooking, and with coal and oil for domestic heating.

Radio and movies compete to a certain extent, but the movies ponder more about television. The fact that the big broadcasting companies are working on television, and in England it is in practical operation on a small scale, indicates television is not too distant. When it arrives the consequences promise to be swift. No pioneering is necessary since the radio public is here and waiting. It is expected that whichever television set is used will be one that must match the transmitting set in order to function. In that event the stakes will be high. What will television do to Hollywood? It is generally supposed that it will be broadcast from film. In that case the production of film would expand greatly. Hollywood would not be able to supply the demand for feature material because radio does not repeat performances. Surely television will make most of the movie palaces useless; unless another use is found for them.

The current battle between glass container manufacturers and can manufacturers is an apt illustration of the value of aggressive and intelligent trade associations. At the moment the most vigorous contest is for the beer business, but wine and spirits loom as future battle grounds. To add to the glass container's troubles, paper containers are being used for milk. Because the container market is a rich one the warfare will certainly be continued to the bitter end. Right now the tin can people appear to have the edge. But while glass is losing ground on one front it is gaining on others that may in the end prove more profitable.

When the Diesel engines blossomed forth in lighter garb and with greater speed and efficiency the credit was due solely to persistent research. Railroads now have used them long enough in freight and passenger service to assure a place in that branch of transport. It remains to be seen whether their great fuel economy will give them a taste of the passenger car market. Diesel trucks and tractors are already in use. The fact that General Motors is going ahead with the production of Diesels indicates that the possibilities for expanding markets are real. Since power and manufacturing plants are using more Diesels, steam, electric and gas engines had better beware. Motor vessels use Diesels without hesitation; airplanes may yet adopt them because of their great fuel economy.

There does not seem to be any field of industrial competition more torrid than that of metals. Thirty-three years ago there were only two kinds of steel. Today 10,000 alloys are available, answering the demand for such qualities as light weight, durability, resistance to heat and corrosion. No one metal offers all these qualities; hence the alloys. When a construction engineer decides what kinds of metals he requires for specific tasks he writes out a prescription much as a doctor would, with the difference that the engineer is exactly certain what the outcome will be. Copper, brass, bronze and aluminum alloys are well known. In the construction field the iron and steel alloys are the most important, with aluminum and magnesium gaining ground where their lightness and strength are valued. Monel metal, duraluminum, stainless steel and other alloys are taking precedence over simple carbon steels with increasing frequency. Railroads are potentially large users of alloy steels in their efforts to effect operating economies through lighter equipment. The motor industry is a very large user of the newer metals, while the motor truck has caused the railroads to abandon thousands of miles of track and inspired a disinclination to build new lines. The production of steel rails has consequently suffered. Marine and manufacturing consumers find the stainless steels of great use. One expert believes that some day the heavy iron and steel industry will give way "to more intelligent construction built up and welded." The role of steel in new home construction is not yet clear, neither is it by any means discouraging to contemplate. It does seem that vanadium, nickel, chromium, silicon, tungsten, tin, and the others already mentioned will play their part in the new metallic age.

Henry Ford further complicates the iron and steel outlook with his plan to make auto parts of soy bean meal instead of with steel and kindred metals. New cements and tilings have been in-

vented that further threaten steel in construction. Glass has already become a part of heavy construction, with important factors in its favor. Lumber strives valiantly and vigorously to recoup ground lost to brick, cement and steel, while brick and concrete have their own little brawl. Synthetic compositions with special insulating and accoustical properties are also participating in the feverish struggle to gain a foothold for the long-predicted and long-overdue building boom.

There is no end to industrial change. There are no permanent changes because change itself is permanent. It behooves the industrialist to research and the investor to be vigilant.

A Bear Market in Bonds?

(*Continued from page* 349)

panies would be similar. Even admitting so extensive a decline to be almost outside the bounds of possibility, it is nonetheless a valid point that even a comparatively small decline in bond prices must necessarily have serious repercussions.

Thus, it must be taken for granted that the Government under present conditions will do little or nothing to bring about a material firming of interest rates that would severely affect bond prices. On the other hand, is it possible for the Government to prevent such a firming? During the World War when it was most desirable that money rates be easy, they moved steadily forward and the United States paid progressively more for her money. It would seem, therefore, that although the Government were powerful, it were not all-powerful.

This leads us to a consideration of the political outlook. If the present Administration is returned, it seems logical to assume that it will continue to pursue the policy of lavish spending, proverbially attributed to the sailor. This will further increase bank deposits and, although it may cut down excess reserves, it will be more than ever necessary for the individual to solve the problem of investing unnecessarily large bank deposits: or, if the individual fails to invest them, then the bank will have to. All in all, it seems certain if the present Administration is returned that money will continue easy and the bond market at least firm.

But what if the Republicans are returned? They are pledged to deflationary policies—a stopping of the present waste, the balancing of the budget and so forth. If these objectives are pursued, higher taxes cannot be avoided; the recovery movement even may possibly be arrested to some extent, although all agree that there have been many elements of the natural in our emergence from the depths. Initially, of course, deflation has a favorable effect upon truly high-grade bonds—the bond market rose steadily from the last quarter of 1929 to the middle of 1931. The market then, however, was not as high as it is now and there probably were not as many second grades masquerading as high grades, so it seems possible that the initial stimulation that deflation usually gives bonds may be largely lacking in this case.

At the same time, it would not be logical for the Republicans to pursue their reversal of the "New Deal" with sc much vigor as to actually begin to destroy investment values. Undoubtedly, they can be counted upon to ease up on their budgetary and taxation reform as soon as the patients, including business and the bond market, start to gasp. Moreover, as they will never be able to balance the budget immediately, it will be in their interest, too, that money be kept reasonably easy. Thus, while a Republican administration can be counted on to have a somewhat depressing effect upon bonds, there seems no likelihood of a serious crash.

The fourth factor mentioned as possibly resulting in a decline in the bond market was loss of faith in dollar obligations. (There is a fifth, war, but this is something about which predictions obviously are quite useless.) Loss of faith in dollar obligations can take two forms. The first is negative where the foreigner, with renewed confidence in his own country, decides to take his money home. This would occur on a small scale in the event of French devaluation and a cessation of political troubles in that country. It is our opinion, however, that the effects of such a development upon the economy of the United States have been greatly exaggerated. There might be a temporary flurry in our security markets, but nothing more.

On the other hand, loss of faith in the dollar on the part of Americans would be devastating. It would be, of course, the inflation about which so much has been said and written. A sharp distinction should be made between this and the comparatively modest and gentle rise which is expected to take place in commodities, although there is no denying that this also will harm those holding bonds. Fortunately, however, a loss of faith in the dollar that could be termed truly inflationary appears quite remote; certainly there are no signs of it at the present time.

This leaves us then with a change of policy on the part of the present Administration, or a change of Administrations, as the most likely factors to cause a reversal in the trend of bond

prices. Whether they actually will do so remains to be seen, but certainly there is no denying that bonds are at peak levels today and that some time in the future they will sell lower. For the individual investor this prospect boils down to his holding his own for a time under the most favorable circumstances, while if the circumstances are not favorable he will be confronted with a decline in the market value of his holdings before long.

For those who propose to hold their bonds until maturity this does not, of course, spell any actual loss—it is rather that they have foregone their chances of obtaining a larger return by taking advantage of more favorable investment opportunities than obtain today. We reiterate that any decline in bond prices will be gradual and not precipitate but, even so, matters should not be left to take their course. Because of the likelihood of ultimate decline from the present peak levels and because the prospect still strongly favors a further rise in commodity prices and the cost of living, it would seem that the individual were well advised to begin cutting down on the proportion of his capital invested in high grade bonds. He should always hold some of these, of course, regardless of conditions and prospects, but if, for example, he had 60 per cent of his capital in high grade bonds two years ago, he might consider 40 per cent enough today; or, if he held 40 per cent then, possibly 25 per cent would be more suitable now.

The World Invests in America

(*Continued from page 345*)

term balances, of course, is another matter and might be larger. In the case of Dutch and Swiss holdings, withdrawal would be chiefly influenced on the one hand by the foreign exchange ratios and, on the other hand, by opinion in those countries of the American outlook. If for any reason doubt arose as to safety or future profit prospect of these American holdings, this would be an influence making for withdrawal. Since Holland and Switzerland were not involved in the World War, it is presumed they will not participate in the next war. Hence, European war fears—as least as far as they can now be appraised—probably will not figure in the movement of Dutch and Swiss capital.

With respect to the relatively small French holdings of our common stocks—only $142,000,000—both the foreign exchange ratio and war fears in that country—together with political instability—would enter the picture.

Unless conditions in this country take a radical turn for the worse, the threat of large scale withdrawal of foreign capital by *voluntary* action of its owners is not a serious one. In the event of another European war, the individual foreign holder of American stocks would be most anxious to keep such holdings intact. In fact, approach of war would see a frantic effort of more European capital to take refuge here. But in such a situation the controlling factor would not be the individual foreign investors but the policy of their governments. In the last war American investments of foreigners were commandeered by the warring governments. They would be so again in another war and their enforced mobilization or even speculative anticipation of it would be a severe shock to our stock market. Our new tax law may have some effect on the international capital movement, especially as regards British security investments here. It imposes a levy of 10 per cent on dividends and bond interest. Together with the British tax on dividends, this would mean a total extraction of about one-third, instead of one-fourth as heretofore. This will tend to lessen the attraction of American securities but whether it is enough of a factor to induce any important withdrawals of funds now invested is open to question.

Texas Gulf Sulphur Freeport Texas

(*Continued from page 363*)

to 62 cents a share of common stock, which compared well with 22 cents for the first quarter of 1935. As this company is paying dividends at only half the rate of Texas Gulf, namely $1 a share annually, there is clearly a very wide margin of safety for the present rate of payment and even hope that increased amounts will be distributed as demand further increases with business expansion and the operating condition at Grande Ecaille further improves.

In addition to its sulphur operations, Freeport Texas owns a controlling interest in the Cuban-American Manganese Corp. This company, however, is not in commercial operation, for the trade treaty with Brazil cut the duty on manganese and caused its suspension. The losses sustained by Cuban-American Manganese have not been consolidated with the earnings of Freeport Texas and the proportion of the accumulated deficit applicable to the parent company amounted to $214,000 at the end of last year.

Based upon past experience, both the sulphur companies possess adequate liquid resources, especially the larger of the two. As of March 31, 1936, Texas Gulf reported current assets of $11,648,000, while current liabilities were less than $2,000,000, including $1,500,000 as a provision for taxes. Of the current assets $9,500,000 was in the form of cash or United States Government obligations. The current assets mentioned above included neither the supplies of sulphur above ground nor materials and supplies; at the end of last year the sulphur above ground was valued at more than $13,000,000, so that total current assets must be in the neighborhood of $25,000,000, or some twelve times total current liabilities.

Freeport Texas at the end of last year had current assets of $8,468,000, of which $1,444,000 was in the form of cash. Current liabilities aggregated $2,178,000.

The outlook for the sulphur companies appears to be generally good. The busines tempo is quickening and this must inevitably stimulate the demand for sulphur. The business, of course, has its hazards both natural and manmade. The states of Texas and Louisiana could quickly offset the favorable effects of increased demand by the imposition of still higher taxes on extraction, to say nothing of what damage it is possible for the Federal Government to do by means of corporate income taxes. Except for this and possibly for production difficulties now quite unforseen, there seems no reason why the two big American producers of sulphur should not maintain their dominant position.

Whether there is anything to chose between the stock of Texas Gulf Sulphur at $36 a share and that of Freeport Texas at $30 a share seems to be largely a matter of opinion. The former is the larger and stronger company and the $2 dividend currently being paid is twice that being distributed by Freeport Texas. On the other hand, Freeport Texas reported per-share earnings for the first quarter of 1936 slightly larger than those reported by Texas Gulf and as the smaller company is only just beginning to overcome certain production difficulties, it may well be that it will show more dynamic action marketwise. This is possibly the more likely because there are between four and five times as many shares of Texas Gulf outstanding as there are shares of Freeport Texas and there is much precedent for the belief that companies with small capitalizations move faster than those with a large number of shares outstanding. A choice between the two companies probably will depend upon whether one's

choice swings more to the conservative than to the reverse, but regardless of whether one leans to the larger and more stable Texas Gulf or to the smaller and more speculative Freeport Texas, either presents an opportunity to participate in a continuance of the recovery cycle.

The Three Rs of the New Tax

(Continued from page 338)

the requirements of the statute. For example, a corporation may have an operating profit of, say, $102,000, and a capital loss of, say, $100,000, so that in actual fact its profit is but $2,000. The $100,000 capital loss, however, is not deductible from operating profit for tax purposes except to the extent of $2,000. In this instance, the corporation would be required to pay $31,502.80, the full normal and undistributed profits tax on $100,000 of income. Congress has not indicated where, under these circumstances, the corporation will get the money with which to pay the tax except out of capital, if it has any.

To add to the corporate tax problems, the Act makes an important change in the basis of calculating depreciation, depletion and obsolescence to many of these corporations who are the outgrowth of merger, consolidation or reorganization in one form or another during the past ten or fifteen years in so-called tax-free reorganizations. In most of such instances, the present companies acquired their properties at values very much in excess of the predecessors' costs. Under the new law, the present owners will have to go back to the predecessors' cost and use that as a basis for computing depreciation, depletion and obsolescence. In many cases, this will seriously reduce the amount to be deducted from current taxable income and correspondingly increase the tax.

Perhaps the most unfortunate defect in the construction of the law is the requirement that corporations, in order to obtain full dividend credit against current earnings, must actually distribute the full amount of such earnings during the taxable year. It is, of course, physically impossible for any corporation to determine what is its actual net income *during* the taxable year. In order to accurately determine net income, even under the best accounting system, inventories must be taken and numerous end-of-the-year adjustments must be made. Yet, under the law, distributions must actually be made before the close of the year in order to obtain the dividend credit. A dividend declaration during the taxable year is not sufficient. Actual payment is required.

It is important to note that the undistributed profits tax does not apply to companies having fiscal years ending during the calendar year 1936. That is to say, it does not apply to the year *ending* in 1936, but to the year *beginning* in 1936. So that, a company whose fiscal year ends as late as November 30, 1936, is not subject to the tax. The management of such companies will probably decide, under these circumstances, to withhold distributing dividends from now until the end of the present fiscal year, for any dividend payments made by them during their present fiscal year would deprive them of so much of the Dividend Credit next year when it may do them some good.

Some of the economic by-products of this new tax on corporations have here already been touched upon. There are and will be plenty of others. That the tax will act as a stimulant to the payment of dividends, there can be little doubt. Corporations already having ample surpluses are unlikely to add to them at the expense of any such tax. Instead, they are likely to finance their new capital requirements in the open security markets. There is bound also to be a redistribution of ownership of corporate securities. Wealthy individuals who have heretofore been able, to some extent, to minimize their taxes through corporate accumulation, may now find it more profitable to dispose of these tax burdened securities and invest their money in entirely tax-free securities, or in bank or insurance company stocks or in corporations which, under the law, for one reason or another, can withhold distribution of current earnings to their stockholders.

The law may seriously affect the market status of investment stocks having a steady record of dividend payments, regardless of earnings in any particular year. Surplus earnings of one year will no longer be set aside by these companies to equalize dividends in lean years. The cost will be too great. Instead, they are now very likely to adopt a feast or famine dividend policy. Nor, will corporations be able to know during the year, with any degree of accuracy, what their dividend for the year will be. Prosperous times will bring an orgy of special dividends. Lean years will be lean indeed. Earnings already reported by corporations this year may have to be materially changed in the next quarterly reports to give effect to the undistributed profits tax or to a new dividend policy.

The new Act is certain to greatly hasten the recapitalization of companies having substantial preferred stock dividend accumulations, but who now enjoy some current earnings. In such cases, the management is hardly likely to be willing to pay a 27 per cent tax for the privilege of retaining the current earnings. Nor are the preferred stockholders likely to be willing to stand by and permit their company to pay such a tax. Complete distribution, therefore, of current earnings will be the natural result in such cases, unless the problem is earlier completely disposed of by a recapitalization or reorganization.

Security refinancing may be materially affected by reluctance on the part of corporations having outstanding agreements on May 1, 1936, prohibiting or restricting the distribution of dividends for one reason or another. For just as long as such contracts are in effect, corporations can, under the law, accumulate these earnings with immunity. What is more, once accumulated, they need never be distributed.

What effect the law is likely to have on stock prices generally remains to be seen, but it must be remembered that in the aggregate, Uncle Sam is cutting off for himself a much greater slice of corporate earnings, which necessarily leaves much less for the stockholder.

There are numerous questions under this law that are not now authentically answerable. Regulations and rulings of the Bureau of Internal Revenue will clarify some of these questions, but it

MARKET STATISTICS

	N. Y. Times 40 Bonds	Dow-Jones Avgs. 30 Indus.	Dow-Jones Avgs. 20 Rails	N. Y. Times 50 Stocks High	N. Y. Times 50 Stocks Low	Sales
Monday, June 15	87.15	155.09	46.50	125.45	124.45	722,780
Tuesday, June 16	87.26	156.70	47.30	126.13	124.60	1,115,350
Wednesday, June 17	87.38	156.97	47.46	126.81	125.77	1,221,430
Thursday, June 18	87.41	157.38	47.96	126.93	125.87	942,536
Friday, June 19	87.26	156.53	47.52	126.64	125.64	828,080
Saturday, June 20	87.26	157.21	47.56	126.47	125.90	317,180
Monday, June 22	87.33	159.13	48.18	127.89	126.36	984,770
Tuesday, June 23	87.23	158.94	47.60	127.70	126.34	972,260
Wednesday, June 24	87.21	160.66	47.89	127.97	126.41	1,237,240
Thursday, June 25	87.13	158.64	47.64	127.76	126.19	1,340,910
Friday, June 26	87.07	158.21	47.88	127.07	125.63	889,760
Saturday, June 27	87.09	158.46	48.11	127.89	126.36	366,50

is not likely that such regulations will be issued very soon in view of the many novel and intricate features requiring careful study and consideration.

Added to this is the certainty that there will be another revision of our tax laws by the next Congress. If President Roosevelt is re-elected, there is likely to be a general overhauling of our entire tax system, based upon Congressional studies already made, although the undistributed profits tax may not be materially changed. If Governor Landon is elected, there may not immediately be anything like a general overhauling of our tax laws, but there would be a mighty good chance that the undistributed profits tax would be completely repealed. Either way, there are many tax chapters still to be written.

Profit Opportunities in Low-Priced Stocks

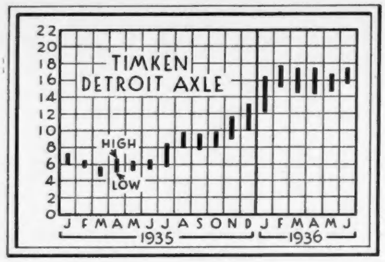
(*Continued from page* 359)

Timken-Detroit Axle Co.

Based on the substantial upturn in sales and earnings recorded by Timken-Detroit Axle Co., thus far this year there is a strong possibility that per-share results will be double those for 1935. This promising prospect evolves from the substantially enlarged demand for the company's two principal products, motor truck axles and oil burners.

Building operations this year, particularly in the private dwelling field, may fall somewhat short of the highly optimistic estimates made earlier in the year, but there is no doubt that they will be considerably ahead of 1935. The need for new housing is readily apparent and such factors as larger incomes, increased employment, higher rents, and ample credit are calculated to provide the necessary stimuli to building activity for several years to come. Meanwhile, modernization of existing dwellings shows no signs of diminishing. The increasing use of oil burners for home heating accompanied by a rising trend in building operations should redound strongly to the benefit of Timken-Detroit. The company's heating units are well established and extensively advertised, and its comparatively recent entry into the air conditioning field is a natural sequence. It has been officially predicted that the company's oil burner division this year will show the best results in history; sales of air conditioning oil furnaces in the first four months were 2½ times those for the same months last year; while oil water heating units showed an increase of nearly 70 per cent in current sales.

Timken-Detroit manufactures both



front and rear axles for practically all of the leading makers of heavy-duty trucks, buses and trolley buses. Makers of light trucks and commercial vehicles are also supplied. Recently the company introduced a two-speed axle for either original or replacement use. The truck industry this year is confidently anticipating a sales value which will surpass 1929 and in the light of results so far these predictions do not appear unduly optimistic. Timken's sale of truck axles are currently running well ahead of last year.

Last year the company reported net income of $1,173,202 which, after all charges was, equivalent to $1.02 a share on 980,000 shares of common stock. In 1934, net of $426,125 was equal to 24 cents a share. In addition to the common stock, there are 24,925 shares of 7 per cent preferred stock outstanding. Financial position at the close of last year was comfortable, with current assets, including cash and securities of more than $2,000,000, totaling nearly $8,400,000, as compared with current liabilities of less than $1,000,000.

The company issues only semi-annual reports. Estimates, however, place earnings for the first six months of this year in the neighborhood of 70 cents a share. Normally, the last half-year is the most active for the oil burner division, suggesting that for the full year earnings on the common stock will be between $1.50 and $2 a share. On the strength of this prospect, the shares possess speculative attraction and dividend possibilities and recent quotations around 17 appear to evaluate the outlook conservatively.

For Features To Appear

In The Next

Issue

***See Page* 327**

Significant Foreign Events

(*Continued from page* 347)

Beside educational deficiencies, the morale of the Red Army is destroyed by political spying within the ranks. Although the officers receive better pay and enjoy better living conditions, the political control of the Communists continues and fosters a feeling of suspicion and mutual distrust. Seventy-eight per cent of the commanding staff belongs to the Communist party, whereas only 38 per cent of the non-commissioned officers and men are Communists. Thus the army is not only a class but a party organization. Nevertheless, Soviet leaders find it difficult to enforce discipline; for example, aviators are not allowed to take fuel for more than one and one-half hours in practice flying but, even so, pilots frequently cross the border into Poland, Persia and Manchuria and prefer not to return. Cases of insubordination are frequent and territorial regiments particularly are noted for their unreliability. In 1933, when the Japanese troops occupied the Gechol province, the Soviet Burat cavalry left its quarters, was reported missing, and it was not until seven months later that the government definitely established the fact that this contingent had joined the Gechol troops.

The 600 squadrons which constitute the cavalry force of the Red Army lose a great deal of their imposing importance when consideration is taken of their mounts. In case of war there would be no reserve horses available. Not only is the present stock badly nourished and unschooled, but the total number of available horses in Russia is now only one-seventh of the 1916 figure. Thus in case of war the mobilization of horses would have catastrophic consequences for the economic life of the country. Due to the absence of more or less well kept roads, the use of tractors is rendered difficult, and the need of horses becomes greater.

The development of armament production has been kept a well-guarded state secret, but it is safe to suppose that there too considerable difficulties have been encountered, as Soviet industrial production in all its other branches is noted for the poor quality of its output. In fact, in 1934, Voroshilow reported before the Party Congress that the aviation industry, especially the construction of motors, was far below standard requirements.

The strength of the Red Army is closely connected with the means of transportation, and despite the sweeping program for improvement in this

field, both road and rail transport are sadly inadequate. Thus in 1934, there were 62,000 railway accidents, throwing out of commission a large percentage of the rolling stock. Only approximately 2,000 cars are produced annually to cover this shortage. The highroads, neglected for the past 20 years, are in such a condition that motor traffic can advance at an average speed of only seven miles an hour. The government is making almost superhuman efforts to remedy these evils, and much is being done to improve both technical skill and discipline. Under present conditions, however, military experts allow for reasonable doubt as to the endurance of the Red Army in the field, or its capacity to cope with modern methods of warfare.

How Political Platforms Will Influence the Business Outlook

(*Continued from page 343*)

favor expansion of employment by business. Little here to win favor with business men or taxpayer. On the other hand, there is nothing here to disturb business during the campaign. Unemployment relief will go on in the established channels and expenditures will be on about the same scale as for the past two years.

3. *Social Security.* The Republican platform is for it in principle, while the Democrats are strong for the Security Act and all its works and more of them. Whoever wins in November the security problems are with us forever and likewise their supporting taxes, but the Democratic plank points to more and more of a load of publicly encouraged incompetence and indolence on the shoulders of the workers.

4. *Labor.* Of course there is nothing in the Republican labor plank to alarm anybody who was not born yesterday and the Democrats have already done all the terrifying they can do by their class-war legislative and administrative acts. Their platform declaration is to be taken with the pious prayer that November will stop the rush toward collectivisim; but nothing that the extremists on either side can say during the campaign will add to apprehension: All understand that Roosevelt's re-election portends the tyranny of organized labor.

5. *Agriculture* planks of both platforms are to be taken as well meant vote-appeals to farmers, within the pattern of the Supreme Court decisions, but the Democrats make no apology for production control in the past nor denial of it for the future.

6. *Tariff and foreign trade* controversies line up with the New Deal for the emphasis on international trade, as a remedy for internal maladies, and with the Republicans pretty well back to the old high protection basis. As the majority of industrialists are as keen for a monopoly of the home market, this will gratify them, while the foreign traders will like the New Deal view—and nobody is going to be much alarmed at anything. The Democrats are strong for protection for the farmer and appear to hedge a bit on generalized reciprocal trade agreements.

7. *Monopolies.* Both parties are against them—and so is everybody in principle except the monopolists themselves. No campaign worry here that has not been more or less in campaigns for the last 50 years.

8. *Agriculture.* Both parties give all they have to the farmers. Business recovered during A A A and certainly will not tremble during a debate about who can do the most now for the farmer. Meantime the benefits pour out, and everybody can use some money.

9. *Money and Finance.* Democrats promise balanced budget—sometime; Republicans—immediately. Both sides are for sound money, whatever that means, but Landon's postscript turns the Republicans toward gold, and the Democrats still talk about something like a commodity dollar—at least a managed dollar. The Republican stand will naturally be more confidence-inspiring to business than that of the Democrats, for the New Deal is left without prohibition or inhibition from doing anything that it chooses to consider as promotive of a sound rubber dollar. The door to any and all brands of inflation is wide open, but nobody is scared.

Beyond the planks and historic structure underneath are the candidates. In 1932 the Democratic platform was, it was later discovered, meaningless. The candidate made up a personal platform of his own—after election. Consequently, with Roosevelt renominated, little more than curious attention will be paid to the New Deal platform, whether good or bad.

Roosevelt, the Democratic Creed

Roosevelt is the New Deal platform in amendment every time he speaks—and yet at Philadelphia and through their scouts his lieutenants have learned that—and told him—that his popularity may be obscured in a day by some statement that would offend his Republican and independent followers or the legendary Bourbons—offend them in their democracy or their economic Americanism. It is probable, therefore, that the President will announce no new departures before election, but

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New York Curb Exchange

Active Issues

Quotations as of Recent Date

Name and Dividend	1936 Price Range High	1936 Price Range Low	Recent Price
Alum. Co. of Amer.	152	87	126⅝
Amer. Cyanamid B (.60)	40¾	29¼	34⅛
Amer. Gas & Elec. (1.40)	43¾	33¾	38
Amer. Lt. & Tr. (1.20)	25	17⅜	22½
Atlas Corp. (‡.40)	16¼	11¾	12½
Bower Roller Bearing (1)	29¼	20½	20⅞
Butler Bros	10⅞	7⅝	8½
Cities Service	7⅜	3	4¾
Cities Service Pfd	66	41½	63⅛
Colum. G. & E. cv. Pfd. (5)	114	93	107⅛
Commonwealth Edison (4)	112	97	103½
Compo Shoe (.50)	16	11½	13¾
Consol. Gas Balt. (3.60)	92¾	84	89⅜
Crane Co	31⅝	24	31
Creole Petroleum (†.20)	34¾	19⅞	27½
Doehler Die Casting	35⅜	27¾	33⅝
Driver Harris (1)	39	25	26
Elec. Bond & Share	25½	15¾	20½
Elec. Bond & Share Pfd. (6)	87	74¾	84
Ex-Cell-O A. & T.	23⅝	14¼	16⅞
Ferro Enamel (1)	40½	28⅜	35⅜
Flintkote A (*1)	45	33	35½
Ford Mot. of Can. "A" (‡.75)	28⅜	20	20
General Tire	93	68½	76
Glen Alden Coal (1)	18⅛	13¼	14
Hall Lamp (‡.10)	8¾	5⅞	6⅜
Gulf Oil of Pa. (1)	98	72	84
Hudson Bay M. & S. (1)	28⅜	22¾	23¼
Humble Oil (1)	76½	57	62
Imperial Oil (*.50)	24½	20	21⅝
Lake Shore Mines (4)	60	51	58¼
Lynch Corp. (2)	55½	34⅝	42½
Mueller Brass (.80)	35½	23½	32
National Sugar Ref. (2)	30	23	26⅜
Newmont Mining (2)	96¾	74¼	84
New Jersey Zinc (2)	92⅜	69½	80
Niagara Hudson Pwr	11¾	7¾	11
Niles-Bement-Pond (‡.50)	44⅞	28½	37
Pan-Amer. Airways (1)	66¾	45¾	56½
Pepperel Mfg. (3)	70½	55	67¼
Pitts. Pl. Glass (*2)	140	98¼	121
Sherwin-Williams (4)	145½	117	137
South Penn Oil (*1½)	40½	32½	38
United Shoe Mach. (5)	90	83	88⅝

* Includes extras. † Paid last year.
‡ Paid this year.

that the emphasis of his campaign will be placed on what has been achieved for social reform and improvement—and what that achievement presages. He can hardly afford to alienate any more of the liberal conservatives. The ultra-radical minority parties are drawing on his pink and red strength and there are signs that a conservative-thought reaction is setting in. The astute President may find it to be political sense to talk reassuringly—particularly if the French crisis affords a further object lesson of the dangers of petting Communism. If his brilliant and moving but temperately phrased acceptance speech is to be his oratorical standard for the campaign, there will be no volcanic disturbances of business confidence by him.

Landon, intellectually sincere and straightforward, will do his level best to effectuate the real intent of his platform. He will give definiteness to the weasel word parts and will at all times give vital substance to the unwritten platform that is latent in the life and works of his party.

The final verdict is that barring some unplanned "break" on the Democratic side of the battle line, the 1936 Armageddon will rage and roar without dismay to business, which will make all the hay it can while the sun shines, before the New Deal gets an extension, or preliminary to the big boom that would come with Landon's victory. Always, too, there is the thought that the New Deal will be pretty slow and tired out, even if it does get, a popular permit to continue in business. There will be a much larger out-and-out vote against it in the next Congress, win who will. The trained Democratic seals will begin to be stronger on the Democratic side of their heredity and less affected by the barely skin-deep policies they have cheered for by day and sworn at by night these past three years of rapid-fire legislation by Congress, nullification by the Supreme Court and near-dictatorship by the White House.

Roosevelt may have four years of impotence before him. That might be nothing to worry about — but what about four years of impotence for Landon, if elected; with a Democratic Senate (which is certain) and perhaps with a Democratic House.

Well, maybe business would not complain if politics were thus suspended. Certainly it will not bother about possibilities of inaction when engaged in throwing all of its influence against the continuation of a regime which has run it ragged with painful beatings and threats of more and worse.

Columbia Gas & Electric Corp.

(Continued from page 357)

completed this summer. Estimates have indicated that Detroit will pay some \$8,500,000 annually for natural gas, from which it is a safe assumption that both Columbia Gas and Panhandle Eastern will obtain important financial benefits.

With natural gas playing a dominant role in both current activities and future prospects, the facilities of Columbia Gas have been thoughtfully planned to meet its requirements. At the end of last year, producing and reserve gas fields aggregated some 4,351,800 acres in West Virginia, Kentucky, Ohio, Pennsylvania and New York. Of these less than 20 per cent were in active production. Obviously the company is well fortified with reserves for some time to come. In addition, it has nearly 30,000 miles of pipe line facilities, gas manufacturing plants having a daily capacity of 45,700,000 cubic feet and electric generating stations with an installed capacity of 482,628 k.v.a., together with 1,447 miles of electric transmission lines.

The capitalization of Columbia Gas is fairly well balanced. Consolidated funded debt amounted to \$181,490,200 at the end of 1935; subsidiary preferred stock and minority interest totaled \$49,340,281. Parent company preferred stock 6 per cent series is outstanding in the amount 940,694 shares; 5 per cent series, 38,673 shares; and 5 per cent convertible preference, 222,029 shares, all of \$100 par value. Common stock outstanding amounts to 11,721,978 shares. By contrast with many other public utility companies, the capital structure of Columbia Gas is a conservative one.

This is further borne out by the company's depression record. Prior to 1934, fixed charges in each year were covered better than twice over. In 1934 and 1935 a somewhat higher operating ratio reduced the coverage for fixed charges, although they were still earned better than 1¾ times. Interest charges this year will be reduced \$420,000 by refunding operations and the company will doubtless undertake to effect further savings by this method. Dividends on all classes of preferred stock have been continued without interruption, and last year preferred dividends and fixed charges were earned about 1.3 times. Dividends on the common stock have likewise been continued, although in the period 1932-1934 payments were made at varying rates in the form of 5 per cent convertible preference shares.

From 1929 through 1934, earnings available for the company's common stock underwent a progressive decline from \$3.12 a share in the former year to 25 cents a share in the latter. In 1935, however, the trend was reversed.

Last year consolidated gross revenues of the company increased \$3,741,766, of which a sizable portion was saved for net income, notwithstanding increased operating costs. Consolidated net income, after fixed charges, was \$2,151,255 larger than the previous year and net income available for

the common stock amounted to $5,006,183, or 43 cents a share, an increase of $2,065,476, or 18 cents a share. At the end of last year the company was serving 1,052,194 gas customers and 328,482 electric customers, in each instance the largest number of customers in its history.

Financial position is excellent, having been substantially strengthened in recent years. Conservation of liquid resources through the omission of cash dividends on the common stock enabled the company to eliminate bank loans of more than $66,000,000 by the end of 1934. At the end of last year, cash of more than $19,000,000 compared with current liabilities of $14,249,786.

In common with other utility organizations, Columbia Gas has been involved in a number of rate controversies in recent years and the imposition of lower rates or voluntary reductions have prevented both gross and net income from more fully reflecting the upward trend in consumption of natural gas and electricity in the company's territory. Last year, however, a number of important rate questions were settled and while there are still several others pending, the probabilities are that the peak of the agitation for lower rates has been passed, suggesting that the improvement in earnings from this point on will be more impressive.

In the first quarter of the current year, for example, gross was up $3,868,000 and net income of $6,367,779 was equal to 39 cents a share for the common after allowance for preferred dividends. In the same period a year ago, the common earned the equivalent of 28 cents a share. For the twelve months ended March 31, common stock earnings were equal to 54 cents a share, making an excellent comparison with 21 cents a share for the preceding twelve months.

The company is commited to no stated dividend policy for the common stock, 20 cents a share having been paid in 1935 and on May 15 a similar payment was made. The probabilities would seem to favor another disbursement in November, although the company's management has been at pains to point out that further dividends will depend on later conditions and interim events.

The thought which must naturally occur to the investor considering public utility securities, particularly those of the holding company variety, is the possible fate of the enterprise in the event that the Public Utility Act of 1935 is upheld by the United States Supreme Court. Aside from a very good possibility that the Act will be declared unconstitutional, Columbia Gas & Electric would seem to have little to fear should the contrary eventuate. The company's electric properties are practically all located in Ohio. Although closer regulation of the natural gas industry has been sought in Washington, this phase of the utility industry does not come under the direction of the S E C, as stipulated for other divisions in the Public Utility Act.

Last year the common stock of Columbia Gas & Electric sold as low as 3⅜. Today the stock is selling some 17 points higher, adding more than $200,000,000 to the market value of the equity. From this substantial recovery, it might be inferred that immediate prospects have been rather generously discounted. On the other hand, the possibilities for the future development of the company's natural gas business may be conceded the dynamic aspects which are more characteristic of industrial shares than the average public utility common stock. In the words of Walter J. Beckjord, vice-president and general manager of the company: "The true value of natural gas as a household fuel, as a high grade fuel for specialized heating operations, and as a raw material for synthetic chemical purposes is just beginning to be fully appreciated. The potentialities along these lines are tremendous." Evaluating the common stock of Columbia Gas & Electric in the light of this prospect, it is not difficult to visualize the extent of the speculative possibilities which it affords.

Detroit Edison Co.

(Continued from page 366)

the shares yield better than 4% at recent levels around 142. Substantial blocks of stock are held by North American Co. and American Light & Traction, resulting in a relatively inactive market, but commitments made at this point would seem to hold well-founded assurance of sustained income and gradual price appreciation.

National Lead Co.

Earnings Per Share 1934	Earnings Per Share 1935	Recent Price	Div.	Yield
$0.84	$1.08	$27	$0.50	1.8%

Prior to the ten-for-one split in the common stock of National Lead which was made effective earlier this year, the shares sold above 300 and to that extent were regarded as a "rich man's" stock. Aside from the fact, however, that the shares currently are selling around 27, they have much to recommend them to the consideration of investors both large and small.

National Lead Co. is the leading manufacturer of lead products and one of the foremost manufacturers of paints and pigments. Included among the widely diversified list of products are lead pipe, solder, lead plumbing supplies and sheet lead, printers' metals, lead oxides, bearing metals, acid manufacturing equipment, pewter, and Britiannia metal and tellurium sheet lead and pipe, as well as numerous others. The company is probably best known to the public through its widely advertised "Dutch Boy" white lead. Although the company is one of the worlds largest consumers of lead and tin, it produces but a comparatively small quantity of these metals. In order, however, that year-to-year earnings will not be subject to the vagaries of widely fluctuating prices of raw materials, the company has followed a unique but simple and effective method of inventory accounting.

The company has been noteworthy for the brand of conservatism in which the management indulges but the wisdom of these policies speaks for itself in the record of earnings and dividend payments. For the past seven years dividends of at least $5 a share annually have been paid on the common stock, during which period 1932 was the only year in which these dividends were not earned. In that year the common stock earned the equivalent of $3.15 a share. Last year common stockholders received an extra dividend of $1 a share and a 14% stock dividend.

Common stock now outstanding amounts to 3,098,310 shares, ahead of which are 243,676 shares of 7% class A preferred and 103,277 shares of 6% class B preferred, both of $100 par. At the end of last year 34,883 shares of class A and 25,815 shares of class B stock were held in the treasury. The company's 1935 balance sheet disclosed characteristic financial strength. Current assets showed a ratio to current liabilities of nearly 8 to 1, while cash and marktable securities alone were sufficient to liquidate current liabilities of $5,048,607.

Last year with a sales volume of $66,559,197, earnings available for the present amount of common stock were equal to $1.08 a share, after preferred dividends. On a similar basis this compares with 84 cents a share earned in 1934. The company publishes only half-year reports but in April last it was officially stated that both tonnage and operating income were running ahead of last year, while net income was slightly lower owing to the addition of some non-recurring income a year ago. It is more than likely, however, that the company is participating

generously in the enlarged volume of building construction and modernization this year and, in fact, the improved tenor of business generally should be reflected in current profits. Dividends have been inaugurated on the new stock at the rate of 50 cents annually, equivalent to the rate prior to the stock split-up, and in all probability the directors will continue the policy of paying extras as earnings permit. Selling around 27-28, the shares reflect the market confidence in a sound industrial issue and they may well attain considerable market popularity and higher quotations with the gradual absorption of the increased floating supply resulting from the recent split.

A Contrast in Price Trends

(Continued from page 355)

We so very often refer to our domination of world markets in certain commodities, listing the percentages of cotton, oil, tobacco and other staples which we send into international trade. We are apt to forget that even as we lean on the foreign demand for our exports, there are tin dredgers in the Malay Straits studying the operations of American Can and Continental Can; watching automobile production, counting the cars off the assembly line.

As in tin so in cocoa. The dominant commercial unit in a large part of African trade and development is the Lever Bros. soap organization, of Nigerian and Gold Coast cocoa, they are the buyers and shippers and our consumption, stocks on hand, manufacturers' withdrawals, are studied just as carefully as we follow, for example, every pound of copper that leaves a refinery anywhere in the world.

There is something vastly encouraging in viewing a commodity undergoing a wholly natural market reaction without interference, where price and demand play their proper parts as coordinators and buoyancy arises from actual consumers' use.

General Electric, the Stock Everybody Likes

(Continued from page 341)

depreciation of $147,036,728 as above stated. The business philosophy behind this policy has been stated by the management as follows:

"A manufacturing organization's progress may be measured to some extent by the rapidity of its change in plant, bringing about better methods, improved quality of products and lower costs. With lower costs come reduced selling prices, followed by increased business and a greater use of plant. When plant value is low on the books, management is more responsive to the introduction of new methods and better tools."

Inevitably in investment consideration of General Electric stock comparison must be made with Westinghouse. Averaging the results attained by each over their entire careers, the record of General Electric is the superior. Its volume has been roughly twice that of Westinghouse and its profit margin has been slightly larger. Over the entire period its financial position has been stronger than that of Westinghouse and still is. An important point of difference is that General Electric's income from investments is a much larger proportion of its total earnings than is the case in Westinghouse.

But it must be noted that in recent years Westinghouse has narrowed the gap in various respects. Its financial position has been greatly strengthened and the Westinghouse of today does not remotely resemble the Westinghouse that was forced into reorganization by the panic of 1907. Whereas Westinghouse long had only about half of the sales of General Electric, last year it had 58 per cent as much volume as its larger competitor. Again, in 1929 General Electric's manufacturing profit was 11.9 per cent of sales and Westinghouse's margin was slightly lower at 10.1 per cent. Last year the manufacturing margin was 8.8 per cent for each, as above detailed.

Stock split-ups have greatly diluted the General Electric equity, so that 28,845,927 shares are outstanding, against only 2,586,341 common shares for Westinghouse which is preceded by only 80,000 shares of preferred. Westinghouse had sales amounting to $81 per common share in 1929; General Electric sales of approximately $14 per common share. Last year Westinghouse sales per common share were $47, General Electric's $7.23. On a per share basis, therefore, the Westinghouse business is more than six times as large as that of General Electric.

At its highest price in 1929 General Electric sold at 45 times that year's record earnings, Westinghouse at only 28.4 times its 1929 net per share. Today General Electric sells at, roughly, 39 times its current earning power, Westinghouse at only 23.2 times. An enterprise valued on the General Electric balance sheet at $398,000,000 is appraised in the present stock market at $1,124,940,000. An enterprise valued on the Westinghouse balance sheet at $194,000,000 is appraised in the market at only $299,000,000. Westinghouse earnings per share are, roughly, five times those of General Electric, but its market price is only three times that of General Electric. In proportion to the business handled, the working capital of Westinghouse is about 10 per cent greater than that of Generl Electric. Computed on the same basis, cash holdings or investments equivalent to cash of General Electric are about 15 per cent larger than in the case of Westinghouse.

Early in 1935 this publication recommended Westinghouse common at a price of 36. The low for 1935 was 32⅝. As compared with that low the price has slightly more than tripled. General Electric, relative to its 1935 low of 20½ has not quite doubled.

It is clear that the stock market places a substantial premium on General Electric for its greater size, the superiority of its past record, its greater stake in the foreign market—in general, for its position as No. 1 in the electrical industry. Whether this is entirely realistic is beside the point. The chances are that General Electric will continue to sell on a higher earnings ratio than Westinghouse. Certainly one is warranted in holding that its future is bright. We like both stocks. Take your choice.

Happening in Washington

(Continued from page 335)

Federal Housing Administration will be cited throughout the campaign as one of the numerous instances in which the Administration has concretely acted to aid business recovery even when reproaching it abstractly.

Germany is greatly offended at being outlawed from the reciprocal agreement's generalization. Regards that action as the work more of anti-Nazi sentiment in this country than of rational procedure. Special agents have arrived here from Berlin to endeavor to convert Mr. Hull and his assistants to a sympathetic view of Germany's exchange problems; to the exigencies of which, and not discrimination against the United States, the Germans attribute the policies that are held to be discriminatory. It is recalled that Mr. Peek, when he was in power, had almost effected a barter deal with Germany.

No more trade agreements will be made before election except, possibly, minor ones in which generalization policy will be inoperative in practice.

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